

# THE SECOND OPENING OF JAPAN: ARE MARKET ENTRY BARRIERS CRACKING UNDER THE EU-JAPAN ECONOMIC PARTNERSHIP AGREEMENT?

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**Abstract**

The Japanese market has for an extremely long time been thought of as a notoriously hard market to enter for foreign companies due to a high amount of both institutional and cultural barriers. Due to the high amount of barriers and the rather low amount of EU and Finnish companies operating in the Japanese market, the EU and Japan decided to forge their own Free Trade Agreement (FTA) that came into effect on the 1st of February 2019. This thesis takes a thorough look at the barriers present before the Economic Partnership Agreement (EPA) came into effect, what the EPA entails and what learnings can be found from the EU-South Korea FTA, as well as how the EPA is forecasted to impact Finnish and European companies.

Many market entry specialists, however, claim that the current utilization of the EPA especially among small and medium enterprises (SMEs) is uncommonly low. At this current point of time in 2021, very little scientific literature regarding the short-term outcomes of the EPA exist. Due to this, multiple specialists were interviewed to find out which parts of the Free Trade Agreement are expected to practically result in new benefits or hindrances for companies involved with trade between the EU and Japan.

Expert opinions and analysis point towards Finland gaining a very negligible benefit from the EU-Japan Economic Partnership Agreement, while new bureaucracy in the form of Rules of Origins will outweigh many of the benefits of institutional market entry barriers being dismantled. This is perceived to have a very lopsided effect especially on SMEs who are not expected to gain much from the new FTA. The analysis also revealed cultural market barriers to cause more issues than institutional market barriers in most industries. The aforementioned cultural market barriers also mainly remain intact even after the EU-Japan EPA has been fully implemented.

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**Keywords** Market entry strategy, Japan, Market entry barrier, Economic Partnership Agreement, Free Trade Agreement, Rules of Origin, Tariff, Culture, Cultural barrier

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**Tiivistelmä**

Japanin markkinaa on jo pitkään aikaa pidetty erittäin vaikeana markkinana kansainvälistymistä varten korkeiden instituutionaalisten esteiden ja kulttuuristen esteiden vuoksi. Korkeiden kaupanesteiden ja jokseenkin alhaisen Japanin markkinoilla operoivien kansainvälisten yritysten määrän vuoksi, EU ja Japani päättivät luoda oman kahdenvälisen vapaakauppasopimuksen joka tuli voimaan ensimmäinen helmikuuta 2019. Tämä tutkielma käy perusteellisesti läpi kaupanesteitä jotka olivat olemassa jo ennen vapaakauppasopimuksen voimaantuloa, ja tarkastelee miten kyseinen vapaakauppasopimuksen on ennustettu vaikuttavan suomalaisiin ja eurooppalaisiin yrityksiin.

Monet markkinoillepääsyn asiantuntijat kuitenkin uskovat vapaakauppasopimuksen käyttöasteen olevan epätavallisen alhainen, varsinkin PK-yrityksien keskuudessa. Tällä hetkellä

vapaakauppasopimuksen lyhyen aikavälin tuloksista on erittäin vähän akateemista kirjallisuutta.

Tämän takia, haastattelin monia aiheen asiantuntijoita toiveessa löytää miten vapaakauppasopimus tulee hyödyttämään tai hankaloittamaan Japanin markkinoillepääsyä.

Asiantuntijoiden näkemykset ja analyysi osoittavat vapaakauppasopimuksen tuovan vain vähäpätöisiä etuja Suomelle. Samanaikaisesti, alkuperäsääntöjen byrokratiaa seuraavat haitat tulevat ylittämään monet instituutionaalisten esteiden leikkaamisen ansiosta koituneet hyödyt. Tällä on varsinkin yksipuolinen vaikutus PK-yrityksiin, joiden ei oleteta juurikaan hyötyvän sopimuksesta. Monien toimialojen kohdalla, analyysi myös paljasti kulttuuristen esteiden aiheuttavan suuremman määrän harmia kuin instituutionaalisten esteiden. Myöskin vapaakauppasopimuksen tultua täysin voimaan pitkien siirtymäaikojen loputtua, kulttuuriset esteet pysyvät suurilta osin koskemattomina.

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**Avainsanat** Market entry strategy, Japan, Market entry barrier, Economic Partnership Agreement, Free Trade Agreement, Rules of Origin, Tariff, Culture, Cultural barrier

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## Abbreviations

ACEA	European Automobile Manufacturers' Association
EPA	EU-Japan Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GI	Geographical Indication
HS	Harmonised Commodity Description and Coding System
IPR	Intellectual Property Rights
MFN	Most Favoured Nation
MNE	Multinational Enterprise
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
PSR	Product Specific Rules (of origin)
ROO	Rules of Origin
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
TBT	Technical Barrier to Trade
TM	Trademark
UN	United Nations
WAT	Weighted Average Tariff
WTO	World Trade Organisation

# 1. Introduction

## 1.1. Reasoning and importance of research

Japan is the 2nd largest economy among developed nations, 3rd largest economy in the world and accounts for a ~6% share of the whole world's economy when measured by nominal GDP (IMF, 2018). Japan is also the 3rd most profitable market for any industry sector, but even more impressively, the most profitable in the world for the service industry when looking at foreign direct investment Return-on-Investment (ROI) metrics (JETRO, 2018).

Despite this fact, there is a glaring lack of foreign companies operating in Japan and taking advantage of the big opportunities present. The inwards FDI stock percent of GDP (the percentage value of equity in enterprises and net loans to them, originating from a foreign country) is a comparatively very low 4% in Japan, while the EU is at 55%, OECD total at 45% and the US at 36% (European Commission, 2018c; OECD, 2019). All of these factors naturally lead us to the following two questions: Why is there a lack of FDI and foreign company presence in Japan? And will the world's largest FTA, which came into force in February 2019, the EU-Japan Economic Partnership Agreement (EPA) change the situation?

According to Häkämies, et al. (2016), a market entry barrier is defined as a regulatory action or a stipulation that complicates or creates a burden for a company to conduct international business. These market entry barriers result in unnecessary additional costs as well as missed opportunities to conduct business leading to growth potential going unused. Some examples of market entry barriers are tariffs and certification limitations.

Barkema, Pell and Pennings (1996) also claim that cultural factors like cultural distance and language greatly affect a companies foreign entry and the barriers it will face. These barriers grouped together are referred to as cultural barriers. Japan has the potential to be an attractive market and possibility for Finnish companies and therefore obstacles for entry should be charted and cut down wherever possible. Due to the current economic instabilities in the US, Chinese, Russian and EU markets, because of circumstances like protectionism, trade wars, sanctions and Brexit respectively, the urgency to look at the EU-Japan EPA and its impacts have only been exacerbated.

## 1.2. Research Question

Japan has for long been thought of as a notoriously hard market to enter due to excessively many barriers for entry (see the likes of Billore and Engkvist Borg, 2014; DG Trade, 2018; Felbermayr, Kimura, Okubo and Steininger, 2019). In this thesis, I aim to shed more light on these barriers, the newly established EU-Japan Economic Partnership Agreement and how it will make it easier for Finnish companies to access the 3rd largest market in the world. I aim to understand and look at the above-mentioned topics through the following research question: *Is it reasonable for Finnish and European companies to expect positive changes to their market entry efforts and operations due to the EU-Japan Economic Partnership Agreement? And if so, when?*

FTAs are commonly looked at from a multiple-year perspective, therefore this thesis will not try to provide proof of the EU-Japan EPA results on trade, but instead, it will give foresight into expected outcomes in the near or distant future and how current market entry barriers might play into that. This research question will also participate in the larger academic conversation of free trade agreements and their impacts as well as, how market entry barriers should be classified in cultural and institutional barriers instead of tariffs and non-tariff barriers.

## 1.3. Thesis Structure

This study will utilize existing academic literature on market entry strategies, market entry barriers, Japanese business culture and free trade agreements, as well as look at government conducted research and business-oriented papers to receive valuable context and a comprehensive understanding of the various topics involved in this research. For primary research, multiple free trade agreement and market entry experts were interviewed to map their thoughts and expectations for the outcomes of the EPA and future EU-Japan economic relations. Many of the interviewed experts, including myself, also have a strong connection to Finland either as our native country or current place of residence, and therefore Finland will be featured much more heavily than other Nordic countries or European countries in general.

The thesis will first focus on explaining the methodology and data collection approach used in this thesis. After that, the thesis introduces different themes that run through one by one, but logically connect to each other, as this was seen as a way to provide a much more coherent narrative for the reader to focus on, before ending in a conclusion. This is in



oppose to the usual and strict structure of moving from literature review to data analysis, then discussions and lastly to conclusions. The themes covered in the thesis are in order, FTAs and their purpose, Japanese market entry barriers, the EU-Japan EPA, as well as, expected impacts for Finland and the EU. Due to the theme format of the thesis, there is no strict separation between literature review and data analysis. Instead, they are both used and woven together in all of the themes throughout the course of the thesis.

The themes have been planned out in a manner where they naturally link to each other and build on top of each other through added knowledge and expansion or contraction of the overall topic on hand. Firstly the thesis starts with a general overview on why FTAs are established in the first place, some of the common problems related to them and what kind of an impact they are expected to have on the short-term. Following that, I deep dive more precisely into market entry barriers and especially in the Japanese market context. The thesis will stake a case on the classification of market entry barriers into two specific categories and goes on to list the most notable market entry barriers that affect both of the two top-level categories, the cultural market entry barriers and the institutional market entry barriers. Thirdly the thesis moves on to describe the EU-Japan Economic Partnership Agreement and some of the notable topics related to it, like the media-friendly automotive sector as well as comparisons with the closest market geographically and culturally to Japan, which is South Korea. Lastly, before conclusions and future research, everything above is put together with the assistance of previous academic literature, government publications, interviewee statements, as well as my own experiences working in Japan, to estimate and forecast impacts for European companies and especially Finnish companies.

This structure will most efficiently relay the background information and sturdy foundation needed to understand all of the phenomena that will be intertwined in this thesis.

#### 1.4. Key definitions and jargon

Host market – Refers to the country a company is targeting or is operating in for their internationalization activity. If not separately specified in other segments, refers to Japan in this thesis.

Home market – Refers to the country of origin of the company in question. If not separately specified in other segments, refers to Finland in this thesis.

International Business and Internationalization - A company importing or exporting either products or services, investing in the host market or any form of operation in the host market either directly or indirectly through a third party.

Market entry barrier – An umbrella term consisting of institutional market entry barriers and cultural market entry barriers.

Institutional market entry barrier - Any law, regulatory action or a stipulation that prevents, complicates or creates a burden for a company to conduct international business.

Cultural market entry barrier – Any differences in values, norms and customs or practices that prevent, complicate or create a burden for a company to conduct international business.

Import penetration rate – Describes the percentage of total domestic demand that is fulfilled by imports.

Gemba – a Japanese term meaning "the actual place". This can refer to a crime scene, the factory floor of a Multinational Enterprise or any place where the value is created and/or interactions with stakeholders happen.

## 2. Methodology

### 2.1. Qualitative approach

With the thesis being split into multiple different themes and interweaving literature review and data analysis throughout its course, I aimed at a holistic and comprehensive overview of the overall phenomenon. This should therefore function as a very good entry-level academic paper to those who might not previously be well versed in market entry strategies and market entry barriers.

Additionally, my goal was for the thesis to also work as a practical look at the expectations around the EU-Japan EPA, which would hopefully also be of use to corporations endeavoring to Japan. In order to attain that, an approach that leaves room for interpretation in subjective matters, while also balancing with sources and data of more objective nature, was needed.

## **Paradigm perspectives**

Due to the thesis taking the aforementioned holistic and comprehensive look at market entry barriers, there is a mixture of epistemological starting points. Subjectivism will be of critical use when analyzing phenomena like cultural barriers, while positivism takes a useful, factual and frank stance on matters considering institutional barriers to entry. An excellent foundation for research like this is one that considers the world to be continuously changing, but at the same time having its own distinct structure (Danermark, Ekstrom and Jakobsen, 2005).

Involving these, to some extent, opposing views inside one thesis will require a much-needed balance. In order to accomplish that, the paradigm closely aligning the needs of the research paper is critical realism, which allows for both constructionist and realist perspectives in the times of appropriate need. (Eriksson and Kovalainen, 2015).

As a very wide research topic encompassing different contexts, a key advantage of the critical realism theory is that it allows and even to an extent encourages generalization in claims and results (Danermark, Ekstrom and Jakobsen, 2005). A practical approach and viewpoint stretch through this entire thesis and therefore, an epistemological starting point that is able to take that into account was of utmost importance.

The thesis in its entirety, however, will not exactly fit inside a critical realism paradigm and thus pragmatism is another paradigm that aligns itself well with the objectives and desired outcomes of this research paper. In this sense, the thesis will utilize a method called the critical methodological pluralism, which in essence proposes a frame of reference that allows for different methodologies and methods to be used in various situations that are best suited for those methodologies (Danermark, Ekstrom and Jakobsen, 2005). Like Danermark, et al. (2005) stated, this approach will bypass an “either-or” situation and allow the thesis to combine both theoretical and empirical work in a constructive and beneficial manner.

The other paradigm used in this pluralism, pragmatism, concerns itself with the truth that works in a current situation with the factors at hand and takes a very practical viewpoint to seeking answers (Legg and Hookway, 2019). It aims to discard all prejudice from the decision-making process and considers what implications and impacts different theories or assumptions have on a practical level (Humphreys, 2017). That practical level is the

starting point for what is in itself considered and understood as truth, essentially obligating a linkage from theory to actual practice (Stuhr, 2015).

The reason for wanting a linkage between the theoretical and practical is crystallized exceptionally well in the following quote by James (2019, p. 142) *“what concrete difference will its [a beliefs] being true make in any one's actual life? How will the truth be realized? What experiences will be different from those which would obtain if the belief were false? What, in short, is the truth's cash value in experiential terms?”*

In essence, everything should be looked at through a practical lens, because if two or more differing views or ideas have no variation in their practical results, it is futile to debate about (James, 2017). And herein lies the gist of pragmatism: Finding the truth in scenarios that we can ascertain, confirm and substantiate while rejecting unjustified and groundless claims of the truth (James, 2019).

The above-mentioned two paradigms, critical realism and pragmatism, adopted through critical methodological pluralism, will be able to fathom the whole market entry barrier phenomenon with its complexities, as well as be able to keep the practical implications of this research as a centerpiece throughout the thesis.

## 2.2. Data collection

The objective of collecting primary data was to gain first hand experience and opinions on which market entry barriers have in practice caused troubles for corporations entering Japan. In addition, I aimed at gaining an understanding of which portions of the EU-Japan EPA were seen as helpful for corporations and whether the experts viewed the new FTA as something that will provide a benefit for Finnish or European companies either now or in the future.

As a primary data collection method, this thesis utilized semi-structured interviews. Market entry strategies and their barriers are a complex topic in itself because they include such a large amount of variables, some quantitative and some more qualitative in nature. A semi-structured interview will give the best capability and setting to tackle both of these sides, by having some more specific questions address the more objectively viewed topics like statistics as an example, while more open-ended and interpretive questions were aimed for the subjective discourse which included some instinct-based opinions and estimations.

Interviews were conducted with 5 different specialists (named Interview A through Interviewee E) who all have extensive knowledge on the EPA, while also holding somewhat differing perspectives on market entry barriers and the EU-Japan Economic Partnership Agreement. A majority of those interviewed were Finnish residents with Finnish as their native tongue, while the remaining interviewees originated from the other Nordic countries.

I had originally planned to in addition to specialists and experts in the EU-Japan Economic Partnership Agreement and FTAs, to also interview Finnish companies in the middle of their market entry to Japan, as well as Japanese companies who are working in partnership with European corporations creating 3 factions for interviewee targeting. This plan was, however, thwarted by the ongoing Covid-19 pandemic and the resulting downturn in economic activities as well as border closures in Japan and many other parts of the world, which resulted in market entry efforts either being put on hold or outright cancellation. Therefore, I decided to just focus on the 5 expert interviews as the experts were able to give a large amount of valuable information and context both in regards to Japan, the EPA and FTAs in general.

Interviewee guides were created for all three factions, however, only the expert factions interviewee guide ended up being used due to the aforementioned refocus. Some variations, however, were created to the interview questions depending on the precise tasks and roles the interviewee had in their profession. As an example, some market entry and free trade agreement specialists focused more on institutional barriers than on cultural barriers and thus the questions reflected this fact.

Due to some of the interview questions being very factual and knowledge-intensive in nature, it was determined best to send out the interview guide, with the questions included, to the interviewees ahead of the scheduled interview. This proved to help interviewees with both the factual questions as well as the more open-ended cultural questions as they were able to reflect on and formulate even complex topics to concise and informative answers.

With approximately 17 or 18 questions and some follow-up questions, the interviews lasted for approximately one hour each. The interviews were mainly conducted one-on-one and face-to-face as well as being recorded for later transcription. If a face-to-face interview was unable to be had, the interview occurred through skype with contents and recording nonetheless remaining the same.

Some interviews were also conducted in the Finnish language instead of English, due to interviewers' or the interviewee's language preference and/or proficiency, and in those cases were transcribed in Finnish instead of English. Only the parts of those transcripts that are brought into the thesis as quotes are translated into English, and even in those cases, a meaning-based translation was used instead of a word-for-word exact translation. This is in order to avoid losing crucial context and meaning during the translation process.

Conducting interviews in the most proficient language for the interviewee is also considered as being more important, than the potential loss of information during the transcript being translated (Harzing et al., 2011).

Regarding primary data collection, a sufficient number of interviews needs to be conducted in order to properly deduce practical implications based on the theory and the interview data collected. However, in alignment with both critical realism and pragmatism, generalization to a certain degree is required and this requires a satisfactory amount of data. With 5 interviewees talking about the same topics and answering the questions, it was seen that a relevant consensus was had on most subjects without the need to further increase the sample size. Limitations for a maximum sample amount were present as well. Covid-19 as well as time being the most crucial ones.

Also worthy of acknowledgment is the fact that especially in countries as small as Finland and the neighboring Nordic countries, the professional circles inside market entry experts and free trade agreement experts are very small. What makes this pool of samples even more limited, is the requirement of, inside of market entry strategies/FTAs, having relevant experience related either to the Japanese market or the EU-Japan Economic Partnership Agreement. Therefore interviews and data collection are very much performed through existing connections of the researcher and the interviewees.

Therefore, through my existing personal network, and the networks of those already interviewed, I was able to gather a diverse group of 5 interviewees. With each one meeting the requirements of having personal knowledge and experience related to either Japanese market entry strategies or the EU-Japan EPA while also being a native resident of one of the Nordic countries. Furthermore, all of the interviewees were currently working in said capacity or had relevant and extensive experience related to the topics in the past couple of years.

For secondary data collection, I utilized a multitude of sources, including present academic literature regarding both market entry strategies and market entry barriers. I also conducted research into the topic of Japanese business culture as it is responsible for a large part of the context around cultural barriers. In addition to existing academic literature, research and white papers made for and by different government entities were utilized especially regarding the EU-Japan Economic Partnership Agreement and any previous FTAs. Business/corporate-oriented publications, blogs and news articles were an important part of receiving a holistic understanding of the current practicalities regarding Japan and other topics.

As the author, I also speak and read the Japanese language on a business level and conducted a portion of the literature review based on Japanese language sources. Some of which are not readily available in the English language, as Japanese researchers tend to a large degree to conduct research in their local language. However, a significant proportion of the research and literature for the thesis was in fact, conducted either in Finnish or English.

### 2.3. Research context

The research context of this thesis is very multifaceted due to the many variables involved in market entry barriers. On a more general level though, the context is very international as it looks at trade between two different nations on the other sides of the world. With some exceptions, the thesis also does not to a certain degree make specific distinctions between different industries in these nations, but focuses more on the actual perceived barriers and the international free trade agreement brokered between the EU's and Japan's central governments.

However, as the thesis goes deeper into the barriers and their underlying reasons, the context morphs more towards the business culture and institutional characteristics inside of Japan's economy and business operations. Furthermore, when analyzing individual experts' views on both the barriers to entry and the new Economic Partnership Agreement, I move towards a more micro-level analysis as it includes personal anecdotes and viewpoints. The objective of those viewpoints though is to contrast and link to the actual barriers and the bigger picture, the free trade agreement and its effects on Finnish corporations in general.

These aspects taken into account, the research context of the whole thesis could most likely be described the best on a meso-level. This is because the meso-level can both be defined

as something that looks at the institutional and organizational level, and as the end-goal of the thesis is to find practical applications for Finnish organizations, the viewpoints very much align with one another. Secondly, the meso-level can be described as one that connects both the micro-level and the macro-level to each other and tries to look at links and other forms of connections between the two. This is also a needed viewpoint when discussing government agreements on an international level and their impacts on individuals and vice-versa.

## 2.4. Data analysis

After collecting the appropriate amount of data through semi-structured interviews, they were analyzed through a deductive thematic analysis process. A deductive approach was chosen specifically because of the need to link theory to practice. This way themes in the thesis came straight out of the relevant previous knowledge in the literature review and any new data received was able to be directly related to those, following a pragmatic way of thinking and when possible, attempting to distinguish between what is true and what is not. Additionally, in this thesis' case where the research context varies and the methodology in itself is very fluid, but everything is attempted to be related to practical consequences, an analysis method is needed that is both flexible and adaptable to the needs of the thesis and a thematic analysis provides that exceptionally well. Especially of note is that thematic analysis is a useful tool when creating research and results where not everybody participating and engaging with the thesis are experts on qualitative research and its methods (Braun and Clarke, 2012).

In order to do the thematic analysis, first, every single interview is to be transcribed. As a general principle, the interviews were transcribed through intelligent verbatim to capture the key information and knowledge the most efficiently. Some exceptions and strays from this principle, however, occurred when there were metaphors and contrasting used for clarification or if some questions incite a greater amount of uncertainty within the answers, especially if these are connected to cultural barriers and personal opinions.

Once the interviews were transcribed, rigorous deductive coding began based on the literature review, instead of the data sets. The deductive coding enables the analysis to specifically target theoretical aspects that are of interest and relevant matter to the thesis, efficiently applying data points to their respective theoretical counterparts. This deductive coding method is also used to increase the systemic level of the data analysis and make it



more transparent when contributed to practical applications, improving both its objectivity and trustworthiness (Nowell, Norris, White and Moules, 2017).

The analysis was then conducted through these codes as well as the categories and themes that were derived from the codes. In essence, all of the literature review, previous academic and business-oriented publications, as well as my personal experience with studies and work experience in Japan, were examined to find overarching themes of relevance. All of the transcribed interviews were then compared to the existing themes to find additional insights as well as supportive and opposing viewpoints. Whenever possible, interviewee data from multiple participants were used to discuss a singular topic, with my comments and existing literature working as a supportive function and bringing in valuable context to the discussion. Interviewee insights are often presented in a quote format to capture their essence and meaningfulness to the topic at hand as well as possible. When not in quote format, insights from primary data collection are written and explained out in the text body of the thesis. This method of presenting the primary data was used especially when insights from multiple interviewees contributed to a single topic, and especially if there were differing views on a matter. The above analysis method assured the analysis outcomes to be related directly to the pre-existing relevant literature and produce data analysis results that are both relevant and useful to the broader public discourse (Braun and Clarke, 2012).

## 2.5. Qualitative research evaluation criteria

### **Ethical concerns**

Anonymization is a staple of both qualitative and quantitative research. However, especially in qualitative research's case, the process of anonymization can sometimes remove information that may be crucial to understanding the context of the research. Nevertheless, it is a useful method of establishing trust and creating a forthright and matter-of-fact discourse and atmosphere with the interviewees. Additionally, keeping and honoring the privacy of parties that agreed to be a part of the research in case anything sensitive or controversial occurs was seen as an important factor (Thomson, Bzdel, Golden-Biddle, Reay and Estabrooks, 2005). Though breaches in anonymization would not put one in physical harm's way and the interviews did not involve critically sensitive information in this case, anonymization is still important. Especially when dealing with professions that are not common and have small professional circles, as the risk of

recognition is greatly increased. Additionally, if there were varying opinions between the interviewees of the need to anonymize their participation, it was seen as the best decision to anonymize all participants instead of having a partially anonymized thesis. Furthermore, as some of the interviewees work or have worked for the government, and that experience was relevant to the interview, anonymization was also seen as a necessary step so that comments and opinions from any of the five interviewees could not be construed to be views of any sovereign government. Standard anonymization practices have also been applied to any references on companies or organizations either inside Finland, the EU or in Japan.

All participating interviewees have been briefed on the anonymization process and consent for recording the interviews has been obtained.

## **Evaluation**

One of the most important criteria for evaluation mentioned by Eriksson and Kovalainen (2015) is the trustworthiness of the research and the data as well as the quality. It is acknowledged that trustworthiness towards the research and data might initially decrease due the anonymization of the participating interviewees. However, this trustworthiness level should grow throughout the thesis as the interviewees' high level of expertise and valuable insight and direct quotes brought into the text take more of a center stage.

Existing peer-reviewed literature and data are also systematically looked at through a pragmatic lens to find and present only information that is practically relevant to the thesis and its findings. With these methods, the researcher's own prejudice and opinions are prevented from seeping in and affecting practical results. I, as a researcher, have also tried to keep out my prejudice from the thesis as much as possible to not taint it. However, the thesis does include an ample amount of personal comments and insights from myself that definitely bring forward much-needed context to the research, though they do come from my personal and anecdotal experience. My comments, however, are clearly separated from the literature review or from those of the interviewees to not conflate them with each other, and this allowed the analysis findings to also come from a more pragmatic and overall slightly more objective foundation. The sample size of five expert interviewees as well as the somewhat generalizing view of analysis, also further impedes any single interviewee's personal anecdotes from becoming too overwhelming and influencing for the thesis as a whole. This thesis, therefore, finds a good balance between critical realism as the guiding

principle, along with incorporating the pragmatic paradigm in order to create trustworthy and useful research, as well as outcomes backed by evidence.

With all these contexts accounted for, the thesis should pass the qualitative research criteria from a classic good-quality research criteria perspective. Incidentally, counter to the previous arguments, research papers like this thesis that combine both the macro-level and micro-level in a context of both institutional and cultural market entry barriers and newly commenced free trade agreements are exceptionally rare. Additionally, the structure of this thesis has been written in an unusual format due to presenting various topics throughout the paper and thus evaluation should also be conducted from a standpoint where the complexities and features of this thesis are taken into account and valued for their worth.

### 3. The purpose of Free Trade Agreements

Free trade agreements are in essence a contract between a minimum of two nations to try to stimulate and increase trade as well as reduce obstacles between trade for all of the parties involved. Though there can be many different results for FTAs like lowered tariffs as an example, according to Grossman (2016) the true purpose of establishing a free trade agreement is to create interdependence between the members of the contract. Thus creating a situation opposite of that of protectionism and isolationism, causing actions taken by another party member to also affect the other nations inside of said FTA contract. In order to create a sense of interdependence though, one of the most important factors is coordination, and this can essentially be guaranteed through a formal treaty (Grossman, 2016). Therefore, the following interdependency and required coordination are not at the whim of government officers, and all parties involved are provided a sense of commitment as well as stability to conduct trade together. Baier and Bergstrand (2004) also indicate that ultimately the establishment of an FTA is a binary choice made by each government with the purpose and goal to “maximize public welfare”. Additionally, they propose that there are key characteristics in national economies, like geographical distance and labor ratios, that when matched with fitting counterparts, can accurately predict the tendency for the said nation to create FTAs with other countries.

Milner and Kubota (2005) oppose this idea of knowingly establishing free trade agreements in order to create interdependency or an increase in public welfare, by proposing that globalization and the creation of FTAs, is in fact a sideproduct of democracy, democratization, and wanting to be a part of the larger picture. This, they argue

by stating that democracy and globalization are systemically related and that the inclination for any kind of barriers for trade decreases as democracy expands. On top of the argument about democracy playing a key role in globalization and FTAs, they have additionally listed three separate reasons for the spread of FTAs.

1. Economic crises' compelling trade liberalization
2. Outside pressure especially from the US and other Western nations
3. The increase of neoliberal thinking in governments

With all of these factors in combination pushing nations towards establishing FTAs with Western countries and neighboring nations. Irwin (2020) also subscribes to the way of thinking that global trade has experienced growth due to external factors instead of an internal push, by stating that the reason for increased global trade currently, is mostly due to obstacles and costs relating to transporting and transactions going down. Therefore, increased globalized trade can be seen as a result of technological advances allowing us to conduct more trade more efficiently and cheaper, instead of it being a binary choice regarding whether to establish an FTA or not.

Nevertheless, whatever the primary reasoning may be, without these kinds of free trade agreements in place creating a sense of interdependence with other nations, Grossman (2016, pp. 4, 6) states that “When governments behave unilaterally and noncooperatively, they ignore the harm that their policies impose on citizens outside their borders” and that “a trade agreement provides a means to internalize these externalities”. Therefore, whether economic trade is ultimately boosted by the FTA or not, these internalizations will already create a more cooperative and inclusive world.

### 3.1. Common problems and disagreeing sentiments

The likes of Milner and Kubota (2005, p. 2) indicate that in trade policies, as well as in life in general, the bias to continue with the present state of affairs is exceptionally strong, and therefore “Any change in the protectionist status quo is thus unexpected”, whether it be due to democracy or any other reason. This also aligns with the general consensus that most individual people are resistant to adjustment and change in their lives. However, some economists (see the likes of: Baier and Bergstrand, 2004; Baier and Bergstrand, 2007; Grossman, 2016) think that the move towards free trade agreements in our current globalized world is only a natural thing to do. This is also indeed backed by the

observation that the number of free trade agreements being established has increased rapidly in the past three decades.

Yet even with the amount of FTAs rising recently, scientists are not in agreement whether the agreements even provide an economic boost in the first place, and have been trying to find a definitive answer to it since the 1950s (Baier and Bergstrand, 2004). And although research by economists has been conducted for an exceptionally long time and very thoroughly, the same apprehensions and doubts repeat themselves decade after decade (Irwin, 2020). Throughout this time, there have also been many studies pointing towards free trade agreements actually ending up being insignificant or providing only marginal growth in the long run, while some like Baier and Bergstrand (2007) have estimated that the international trade of countries being a participant of an FTA could possibly even double during a 15-year time. It has thus been practically impossible to find a consistent and empirically backed answer to the question “How much do FTAs benefit us?”.

On the flipside though and as a stark contrast, with the aid of inconclusive evidence and a lack of general consensus of the positive impact of FTAs, a new wave of protectionism and isolationism has tried to counter globalization in the past decade especially in the political landscape. Globalization has encountered backlashes before as well throughout their history and the sentiment for free trade agreements fluctuates greatly with time, especially due to the fluctuations being often correlated with downturns in the economy. With all that in mind, however, the latter part of the 2010s could be argued to have one of the biggest movements and mentality swings regarding FTAs in history. At the forefront of these political movements have been leaders such as the previous US president Donald Trump, who have characterized FTAs as being uneven and unfair, resulting in offshoring of jobs and the downfall of especially manufacturing-oriented industries in developed nations, though this mostly is not backed by scientific evidence (Irwin, 2020).

With trade being a very hot, visible and debated topic both among academics as well as politics, there is empirical evidence to propose that protectionism can be used as a successful political strategy despite the fact that most academics would argue it being harmful for both the domestic and international economies. Some also believe that the pushback related to globalization correlates more with negative images around immigration instead of global trade. According to some sources, the World Trade Organization has also been rather inefficient with dismantling the high levels of entry

barriers between countries, with some exceptions, namely tariffs. With tariffs being the easiest form of market entry barrier to build and dismantle, it has also invited a heated debate about the effectiveness of the said barrier. Some arguing that tariffs do more harm to the domestic industries than good, while some claiming that while inefficient, tariffs actually do redistribute some wealth to the original source from their purchaser. (Milner and Kubota, 2005; Baier and Bergstrand, 2007; Irwin, 2020).

With all that being said, while there is a lack of empirical data and consensus in the scientific community about free trade agreements providing an absolute boost to the affected nations, there is even less evidence to state that the results of FTAs are negative to the economies of said countries. As most of the evidence either points to insignificant changes to affected nations, or to positive effects, most economists approve of, or even support, FTA initiatives while more research is being conducted into the absolute negative and positive effects of establishing these agreements. (Baier and Bergstrand, 2004; Baier and Bergstrand, 2007; Irwin, 2020).

### 3.2. General FTA short- and long-term impacts

FTAs are highly complicated, time-consuming and long-term arrangements. Therefore the results of a negotiated FTA usually are not visible or even expected on an immediate or short-term basis. Instead, they are most often looked at after several years of coming into effect have passed. Additionally, many FTAs often have transition periods negotiated into them, whether it be for tariffs, certification or any other kind of former institutional barrier that was in place. Thus the actual impact of an FTA will not be seen until those transition periods have also fully ended and some time has elapsed. This whole process often taking longer than 10-years, due to the aforementioned transition periods but also due to structural adjustments and adaptations (Grubler et al., 2019).

Though most economists approve of FTA policies and encourage global trade, the general agreement about whether FTAs provide absolute trade growth and job creation in the long term is more divided (Baier and Bergstrand, 2005). However, the current consensus is that for an immediate impact and for the short-term, just joining or negotiating an FTA in itself is not a useful method of boosting economic growth, job opportunities and global trade (Poole, 2004; Cheong, 2007; Kepaptsoglou, Karlaftis and Tsamboulas, 2010).

Additionally, especially cross-regional FTA policies are commonly in the receiving end of both caution and even scorn. Furthermore, it is widely agreed in the scientific community,

that an intra-regional Free Trade Agreement, instead of a cross-regional FTA, has a much higher chance of providing large amounts of beneficial outcomes to the participating countries than a cross-regional agreement does. (Poole, 2004; Cheong, 2007).

One of the main reasons there is ambiguity about long-term benefits regarding FTAs and why they are not expected to provide short-term benefits is that the utilization rate of FTAs is extremely low. When the FTA itself is not being utilized by corporations, this results in the various potential benefits tied to the FTA to not come into fruition (Hiratsuka, et al., 2009). This sentiment is also echoed by market entry specialists around the world and especially seems to ring true for Finnish companies. Unfortunately, this is even more common within SMEs due to a multitude of reasons the EU has tried to counter, with limited success, by promoting FTAs especially towards SMEs with international potential. Outside of just the EU as well, the new type of FTAs are attempted to be built in a way that as many of SMEs would get merits out of them as possible. One of the biggest question marks with new free trade agreements, therefore, is how to get as many companies as possible to fully utilize everything that was negotiated in them? This is a crucial point from participating countries' economies' perspective since studies do state that in a perfect world with full utilization of FTAs, they would give a substantial boost to the countries' economies and citizens' welfare (Hiratsuka, et al., 2009).

Rules of Origin (ROOs) are a key point of contention in the short-term perspective as well. When a new FTA comes into effect, the learning and knowledge curve regarding ROO's as well as everything else regarding the FTA is extensive. In practice, this often results in a situation where many SMEs do not have the resources to devote their efforts to receive the first-mover advantage in the new market. The late-mover advantages, on the other hand, are clearly visible, when a company is able to utilize free-riding mechanics for all the crucial knowledge required to operate themselves through the complex web of Free Trade Agreement regulations. This kind of action, however, is not good for the prosperity of the economy and the outlooks of the FTA, as it delays investments and the positive impacts a new agreement could have on all of the participating countries' economies.

The broader scientific conversation on the positives and negative effects of different ROO certification variations and of how to change Rules of Origin to become more efficient and for the better is not in the scope of this thesis. More on the topic, however, can be read from the likes of Cheong (2007) and Hiratsuka, et al., (2009).

## 4. Japanese market entry barriers

### 4.1. Classification of Market Entry Barriers and an overview of their effects

Due to a mixture of a multitude of market entry barriers, the unfortunate reality is that both EU MNE's and SMEs are largely missing from the Japanese market. This is in stark contrast to the Japanese companies' well-known presence in EU markets and all over the globe. The EU outwards FDI stock indicates which markets EU companies are directing a brunt of their investment in, and Japan is noticeably low in these statistics, only reaching the 9th spot with roughly a 6,5% share of all FDI stocks. This phenomenon, however, is largely present in Asia, as Singapore, Hong Kong and China, all in addition to Japan are situated in the 7th to 10th ranks, but still all measure within 1,5 percentage points of each other (European Commission, 2018c).

According to a survey conducted by Team Finland in 2016, only 38% of surveyed companies doing or thinking of internationalization, see growth opportunities in the Asian market. Furthermore, the figure is even lower, 24%, among companies who are still considering internationalization or are in its early phases (Häkämies, Pentikäinen and Penttilä, 2016). This same sentiment was also visible already in 2009 when surveyed European companies expressed that market entry barriers in Japan were adding an additional 10-30% on top of their existing costs, while also having smaller product portfolios than in other markets (Mazur, 2016). This is despite two of the three biggest economies in the world, as well as numerous quickly rising and lucrative markets being situated in the aforementioned area. Further pointing towards the deep-rooted belief of Asian markets, and especially Japan within it, being extremely hard markets to enter for western and in particular Finnish companies.

When the above type of discussion regarding market entry barriers occurs, the most common way to refer to them or differentiate between different kinds of barriers is to split the barriers into two distinct groups:

1. Tariff Barriers (TB)
2. Non-Tariff Barriers (NTB)

This differentiation has mostly become standard in the discussions regarding free trade agreements, and can sometimes be found written inside of the agreements themselves as



well. This division has allowed both academics, government officials, as well as businesses to refer to specific institutional obstacles in a rather easy manner. This division also highlights tariffs as being the main obstacle for international trade and therefore compiles everything else together into an umbrella term of non-tariff barriers. This can also be an understandable classification as it allows everything, with the exception of tariffs, to be organized into a single article researchable on the macro level, as some academics claim that non-tariff barriers can increase the costs related to operations in Japan even by up to 30% (Grubler, Reiter and Stehrer, 2019). However, I believe that this obscures the theme of NTBs excessively, causes the classification to be too indefinite, vague and lacking of a frame with just the term “non-tariff”, as well as makes it harder to discuss and research individual market entry barriers, like ROOs as an example, on a detailed level.

Additionally, I do not believe that the division of TB and NTB, takes culture and its significant influence on economics into account to the degree that it should. Instead, it tends to shun culture aside to an extent. Global economies and their transformations should not be viewed separately from the cultures they have been nurtured in, especially in the case of free trade agreement-related discussions, as they cannot be fully separated, but instead consist of one whole (Feld, 1998).

Thus, culture does have a significant impact on conducting business especially in a country like Japan, and therefore this should be a part of the discussion as well. For that reason, in this research I will be dividing barriers into the following categorization of my own creation (See Chapter 1.4):

1. Institutional Barriers
2. Cultural Barriers

Japan especially, is a country very much rooted in deep and intertwined cooperation between different trustworthy partners. Many companies have partnerships with each other that have lasted for tens of years, or in Zaibatsu’s or current Keiretsu’s cases even hundreds of years. Within these alliances, mutual trust and knowledge of one another's operations can be seen as even more vital than the pure economic worth and profitability of the arrangement (Bhargava and Kagono, 2016). These cultural barriers and the closedness of operations can, therefore, be in many cases as detrimental for foreign operations as clearly distinguishable institutional barriers (Mazur, 2016). Additionally, from a Finnish perspective, the Japanese market is still seen to be somewhat closed and difficult,

compared to other industrialized nations Finland conducts trade with. In addition to cultural barriers themselves posing an obstacle of entry for foreign companies, the same cultural barriers also affect institutional barriers and make the convoluted total that much more harder for corporations to overcome (Florek and Jakubczak, 2018).

The above cooperation and networking aspect can prove to be a particularly big hurdle and cultural barrier, especially to Finnish companies, as many of them have evaluated their own weak competencies to exactly be network and new contact management in a foreign country. However, out of the factored in competencies, even more gravely rated were the readiness and preparedness of Finnish companies to deal with foreign regulations, unknown governance and finances related to the market entry push. A near majority of polled companies indicated that foreign regulation is an absolute weakness, while both preparedness for international financing and participation in public sector tendering polled at about 40%. These problems across the board are more prevalent in small companies just starting out their business, as they do not have the resources, knowledge and networks to maneuver through these obstacles (Häkämies, et al., 2016). Unfortunately, these obstacles and burdens are disproportionately affecting industries like chemicals, automotive and processed foods, which account for the biggest share of trade between the EU and Japan, further hampering down on the growth and great potential between the economies (Mazur, 2016). The aforementioned circumstances are specifically the industrial barrier elements as well as pain points that the EU-Japan Economic Partnership Agreement aimed to tackle and solve.

#### 4.2. Institutional Market Entry Barriers (Pre-EPA)

Institutional market entry barriers (as defined in Chapter 1.4) can manifest themselves in many different ways, including but not limited to:

- Tariffs
- Discriminating regulatory actions
- Quotas on products and services
- Systems requiring permissions and/or licenses
- A lack of property rights or copyright enforcement
- A general lack of transparency in requirements and regulations

The above list is not an exhaustive account of all of the forms of institutional market entry barriers in existence in the world, i.e. laws and regulations hampering international trade, but below I will look at some of the cases that are more prevalent specifically in Japan.

## **Tariffs**

Tariffs, meaning an additional tax levied on goods when they are either imported or exported to/from a foreign country, have been and continue to be the most visible and most easy-to-set institutional barrier for entry throughout the world. Compared to other institutional barriers, they are the easiest to institute as well as dismantle but are markedly controversial as a form of barrier and very often also result in retaliation, ending up with a spiral of increasing tariffs (Irwin, 2020). Economists agree close to unanimously that tariffs hurt the economic growth of all parties involved and notably new tariff additions are often the source of great public and media scrutiny. Therefore it is no surprise that starting from the 1980s, tariffs started losing their place and role as a meaningful protectionism mechanism. Thereafter, tariffs mostly began to be replaced by other non-tariff barriers that started rising in meaningfulness. However, these NTBs still did not for the most part appear in free trade agreements as NTBs to take measures against. Labor issues being a good example of the issue, with them currently only being present in roughly 15% of FTAs (Hanson, 2010; Grubler, Reiter and Stehrer, 2019).

The European Union and Japan have had friendly relations and extensive trade for a long period of time and tariffs have mostly not been used as a political weapon either, resulting in a rather low level of tariffs for quite some time, with the weighted average of tariffs before the EPA coming in at approximately 2%. Though there are some notable exceptions to this, especially in forestry and agriculture where tariffs still play a key part in the regulation and openness of the industry to the outside world (Grubler et al., 2019; Felbermayr et al., 2019). This matter is discussed more in detail further down.

Starting on from the 2000s, a time where tariffs were weaponized more for political purposes than before, non-tariff barriers and measures against them started to gain further traction and attention in the core of free trade agreement negotiations. One of the additional reasons that the core focus was changed from tariffs to non-tariff barriers, was that it was found that measures against NTBs could actually augment and provide a positive influence and increase in trade proactively. This is in comparison to measures against tariffs by retroactively cutting costs with tariff reductions (Grubler et al., 2019).

Continuing with the trend of tariffs losing their importance in the 21st century, the EU-Japan Economic Partnership Agreement is also projected to provide less than 15% of its value-added based on tariff dismantling, while the overwhelming outstanding portion will be through measures taken against non-tariff barriers (Felbermayr et al., 2019). Tariffs nonetheless still continue to be an integral part of the agreements due to the convoluted nature of non-tariff barriers and the many difficulties in taking meaningful and lasting measures against them. Tariffs also work well in negotiations as parts of compromises and concessions.

Therefore in Japan's case, for a vast majority of industries, tariffs were not the primary market entry barrier causing obstacles (Mazur, 2016). However, on an individual sector and corporate level, some tariffs still prove to be a substantial barrier both for big and small companies, and disposing of those tariffs would result in benefits for both Finnish and European companies (Felbermayr et al., 2019). The below quote from Interviewee B sides with Felbermayr et al., (2019) and further highlights the role of the tariff as a visible and actionable institutional barrier.

*“The most traditional and in a way simplest form of barriers is the tariff. Hence since they still exist, it's important to address them” –*

Interviewee B

### **Agriculture Industry Protectionism**

The agricultural industry is a very important sector for the EU economy and this rings true particularly for Finland as well, where especially dairy production and exporting is a key business area. Japan, however, has very strictly protected its own agriculture industry from outside supply for a very long time, and this has hit especially dairy products like cheese exceptionally hard (Mazur, 2016; Alqadier, 2018; Grubler et al., 2019). Protectionism of the agriculture industry is in fact so rampant throughout the world, that the whole agriculture industry is totally absent from roughly 40% of free trade agreements around the globe as a whole, let alone being a focal point in any meaningful way (Grubler et al., 2019).

This protectionism is mainly carried out by three different methods.

- Tariffs
- Quotas and Permits
- Subsidizing

As discussed earlier, tariffs for international trade between the EU and Japan were considered to generally be relatively low and not a big source of problems for companies attempting market entry. However, in the case of the agriculture sector, the importance of tariffs have in the past been completely contrary to those of most other industries, with products continually being tariffed at over 10%, while some products like cheese and syrup saw tariffs approaching 100% (Mazur, 2016; Alqadier, 2018; European Commission, 2018c; Grubler et al., 2019). Moreover, there were quotas in places for many product categories as well as a very limited amount of products being able to come through totally duty-free. With certain product categories, licenses and permits were also first required which created an additional burden and made the process abnormally laborious and complicated. As an example, exporting beer into Japan has been particularly difficult due to a malt-brewing quota system that opens applications only twice throughout the year, making companies unable to respond to any short-term fluctuations in demand as they are bound by amounts forecasted months in advance. For liquor though, this system is even stricter with just one application period throughout the year (Mazur, 2016). These permits among the other hindrances affected especially Finnish beverage and dairy producers to a great extent.

In addition, many agricultural products are heavily subsidized by the Japanese Government in order to keep prices artificially low as well as help out many of the farmers in Japan (Mazur, 2016; Alqadier, 2018; Grubler et al., 2019). As a side-effect of this subsidizing in addition to the high tariffs, it has largely made most agriculture exports from Finland unprofitable and therefore close to non-existent in the Japanese market. A combination of these factors has made the Japanese agriculture market to be regarded as “*one of the most protected in the world*” (Mazur, 2016, p. 16).

Agricultural industries are rarely a focus point in free trade agreements, and thus the EU-Japan EPA taking big measures against the protectionism in that field was seen as a significant change to what has usually been accustomed to, possibly for future FTAs to come as well (Grubler et al., 2019).

## **Domestic vs. International Standards and Regulations**

A big stumbling point for many companies in various different industries was Japanese domestic standards and regulations. Japan has been criticized tremendously for not conforming with international standards on both safety and quality of products, creating once again a laborious and complex obstacle for companies to overcome in order to access the Japanese market (Mazur, 2016; Grubler et al., 2019). Conforming a company's product portfolio, creating new compliant product labels and markings, as well as taking it through all of the required tests to receive the required certificates is a particularly time and capital consuming endeavor, in addition to in some companies' minds being a totally pointless waste of resources due to having passed similar requirements already in the EU. These kinds of obstacles and barriers to trade are also sometimes referred to under the umbrella term: technical barriers to trade.

Technical barriers to trade can affect a very wide range of industries and provide hindrances in various levels of difficulties. In Japan's case, notable industries Japan has placed a large number of technical barriers to trade with are chemicals, mineral products, machinery and transportation (Grubler et al., 2019). These regulations have also remarkably worsened the prospects of agriculture exports even more, as some very prominent and common chemicals and additives used in other parts of the world, including the EU and approved by other government bodies, were still outright banned in Japan (Mazur, 2016). This essentially barred some processed products completely from the Japanese market unless companies invested more resources in R&D to create products specifically targeted at the Japanese regulations.

The same trend with unacceptance in regulations and standards is also highly prevalent in the Japanese automotive industry. This economic sector was also a key part of the EPA negotiations, highly likely receiving the most publicity as well. Therefore the automotive segment as a whole will be discussed more thoroughly in Chapter 5.2

Other industries where the unacceptance of international regulations and standards have notably caused a problem in are pharmaceuticals and cosmetics. Both of which rely on extensive and expensive clinical trials and testing, which even if approved by the EU are in many cases not accepted in Japan (Mazur, 2016). These regulation barriers, therefore, result in increased research and development, as well as market entry costs while inducing delays and lengthening the process of introducing products to the Japanese market.

## Rules of Origin

Though FTAs themselves aim to eliminate as many institutional barriers as possible, some hindrances, however, are left behind or even newly formed because of the FTA that require a lot of knowledge and administrative office hours to overcome (Hiratsuka, Hayakawa, Shino and Sukegawa, 2009). One of the most common of these hindrances is the Rules of Origin, which are defined by the WTO (2020) as *“the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports”*. Regrettably, there is no one standard for the ROO's but instead, every market has its own way of handling them and their own required documentation and proofing required for you to attain the required certification for exporting products.

Consequently and hypothetically, even if all tariff barriers were to be abolished the leftover hindrances like ROO's could still result in resource barriers to entry for some companies. This would affect especially small- and medium enterprises with a limited amount of resources to begin with. Rules of Origin nevertheless are a required part for Free Trade Agreements to work properly and there needs to be more work done to streamline and standardize the operations around the world to increase efficiency and lower impediments (Hiratsuka, et al., 2009). Currently, due to different countries being able to dictate the criteria for their ROO's on their own, some Finnish companies have also commented that the required information a foreign company needs to provide to receive a Japanese ROO certification sometimes reaches over the level Finnish companies have considered as their trade secrets. Whether this is because of a cultural barrier due to a difference in values, customs and practices, or a deliberate institutional barrier that was set up after the EPA took hold is still unknown, but it nevertheless requires more in-depth and thorough research.

Until ROO's are streamlined and the process is made more easier for all companies to participate in, especially for SMEs, the strict and expensive process will hinder FTA utilization and economic gains to a great degree while causing an undue amount of pressure and responsibility over to the exporter (Cheong, 2007; Hiratsuka, et al., 2009; Alqadrie, 2018).

In essence, though there are a moderate amount of institutional barriers in place and rules of origin have resulted in additional hindrance, in a time of increased globalization these

barriers, and especially tariffs, have already been cut to a relatively low threshold. Due to this the cultural barriers have significantly increased in importance and weight, and this is especially true in a country and market like Japan, which is geographically and culturally very far from European and other Western countries. (Mazur, 2016).

#### 4.3. Cultural Market Entry Barriers (Pre-EPA)

*Culture eats strategy for breakfast* – is a highly popular and well-known catchphrase many professionals even to this day live by. Though the quote, made by Peter Drucker, is originally meant to be taken inside a company culture context instead of a country or national culture context, it works just as well nonetheless, if not even better since national culture does permeate itself through to the company culture level through the workers that are a part of said company.

This is because the meaning behind *Culture eats strategy for breakfast* is not to demean the importance of strategy, but instead to highlight how big of an impact culture has on the success of the company, no matter how well the strategy was structured in the first place. The aforementioned highlights the human impact furthermore as human touch is the key to bringing out the competitive advantage from within the company's core, either knowingly or unknowingly.

Government institutions and academics often only focus on tariffs and other institutional barriers as they are actionable offenses government entities can take measures against. Therefore, most existing and thorough research linking FTAs and market entry barriers together, is also focused on only institutional barriers. Regardless, for corporations, from a practical standpoint, it is just as important, if not even more important, to take country culture into account when devising market entry strategies. Cultural market entry barriers do exist just like institutional ones do and how they are dealt with has a great impact on the success probabilities of a market entry, especially when the cultural distance is large between the home and host market (Barkema, Bell and Pennings, 1996; Harzing and Feely, 2008; Harzing, Köster and Magner, 2011; Billore and Engkvist Borg, 2014). This sentiment is echoed and even emphasized by all five interviewees in this thesis, who also recognize cultural barriers as having a big impact on companies, and in many cases a bigger one than institutional barriers do.

Barkema, et al., (1996) also state that the cultural barriers a company experiences can be dependent on which mode of market entry the company chooses. Therefore a company



operating through a joint venture might struggle more with some barriers than one operating through a greenfield investment. One of these examples being the language barrier, which disproportionately manifests itself and affects headquarters-subsidary relations in the case of an acquisition or joint venture (Harzing and Feely, 2008). In this thesis, however, I will not be conducting a deep-dive into market entry mode-specific cultural barriers, but instead identifying various cultural barriers (as defined in Chapter 1.4) on a more general top-level, as they, just like institutional barriers, will be very case and situation dependant on how they affect a company's operations.

## **Language**

Language, though being an important part of a nation's culture and an integral part of how humans communicate and conduct trade with each other, has surprisingly been very absent from academic discourse in the context of international business and how MNE's operate, especially when it comes to the Japanese language (Harzing et al., 2011). Even when culture is discussed as a factor in business, the framework behind the discussion is often based on Hofstede (2011), and his cultural distance scheme, which notably lacks the presence of language as a component (Harzing and Feely, 2008; Billore and Engkvist Borg, 2014). This, despite language barriers being one of the most absolute forms of walls between trade, as without common understanding there is no form of exchange.

*“At the most fundamental level, if language serves as a mechanism to differentiate and delineate, the potential exists that this line of delineation will be drawn to exclude individuals and groups from certain settings, such as the international marketplace. In this way, it becomes apparent that language restrictions may prevent access to economic markets, and ultimately, create barriers to trade” –*  
Feld, S. A. (1998)

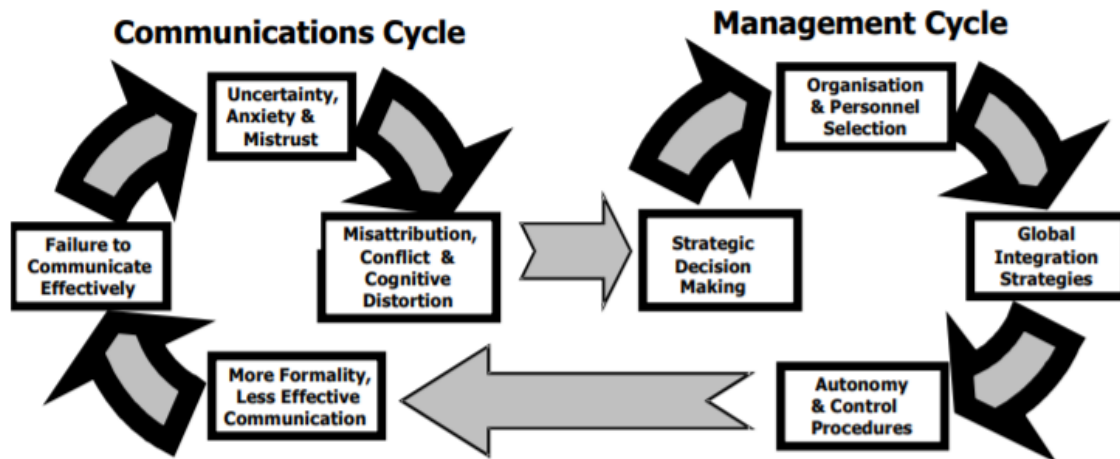
The above quote was made in the context of the free trade of goods increasing and the European Union being established a few years prior. Yet in this global 2021 world abundant with transcontinental free trade agreements it is just as legitimate, if not even much more legitimate, than it was 23-years earlier inside the EU.

The main barrier for foreign companies entering East-Asian countries even in 2021 is still the high language barrier. Cristoph Heider (2018), the President of the European Chamber

of Commerce in Korea, also listed the language barrier still above anything else as the main hurdle for entering South Korea, even above any other institutional barriers, further pointing towards how cultural barriers can have a much more drastic impact on a company's market entry efforts than often is given thought and credit to.

In order for a global and modern marketplace to effectively operate after an FTA has been signed and desirable integration to be achieved, transaction costs must be reduced to as great of a degree as possible. That also includes communication and information exchange between the different stakeholders in a marketplace both in an oral and typed form to facilitate information sharing and trade of goods (Feld, 1998). This communication necessity and the higher transactional costs caused by the language barrier problem is compounded even more in Japan, where the general English level is greatly below South Korea, with speaking levels literally ranking the worst in the whole of Asia, and in some cases, the world (Harzing, Köster and Magner, 2011; Yokogawa, 2017). In fact, according to the former president of Microsoft Japan, 90% of the workforce in Japan does not need to use English at all, thus enforcing, even more, the importance of being able to conduct business in Japan in the Japanese language (Naruke, 2011).

When considering that “*factors preventing or disturbing the flow of information between potential or actual suppliers and customers*” is construed as the definition of a language barrier, it is clear that the presence of a barrier that formidable will have a big impact both on a macroeconomic and microeconomic level. From an individual company’s standpoint, the language barrier in communication, when presented, can swiftly grow to be as much as the single most problematic obstacle a multinational enterprise faces in its operations. (Harzing and Feely, 2008, p. 13)



*Figure 1*  
*The Language Barrier illustrated in a corporate context*

*Source: Harzing and Feely, 2008.*

The above image illustrates the vicious circle that can and often is, caused by the presence of a language barrier inside the context of an MNE having operations or a subsidiary in a foreign country. Taken individually, the left side of the diagram, titled Communications Cycle, showcases the results of a language barrier inside a company, while the right side showcases a standard management cycle and decision-making flowchart for an MNE with a foreign subsidiary. However, when the language barrier with a foreign subsidiary is introduced to the standard management cycle without taking the necessary precautions and actions, it can quickly lead to a great deal of strife and problems for the company. Some of these complications include:

- A. Misunderstandings in communication, leading to errors
- B. Business opportunities in said language bloc are overlooked
- C. Changes in the market entry mode now and in the future
- D. Efficiency drops and slowness in decision making
- E. Staffing changes and career trajectories are altered
- F. Overreaches in control and formation of silo's
- G. IT system integration, knowledge sharing and synergy efforts canceled or postponed
- H. Undervaluation and shunning of the foreign subsidiary or other parties with a language barrier
- I. Distrust and crumbling of camaraderie and corporate culture.

Out of the many setbacks caused by a language barrier, Harzing et al. (2011) indicate misunderstandings and the slowness and lag in decision making to cause the most direct transaction costs, as they sometimes have resulted in a complete standstill of operations for a company. As an additional challenge though, the language barrier does not only affect inter-company or business-to-business interactions, but the business-to-government public sector as well. With the interviewees without exception mentioning language as one of the hardest obstacles to overcome in Japan, one of them especially pinpointed the role of the public sector as a contributor to this cultural barrier.

*“Because [the Japanese Government] is very bad at providing information in English, so unless you speak Japanese or know someone who speaks Japanese, it’s very hard to find detailed information.” – Interviewee A*

Interviewee B echoes the statement of Interviewee A and sees a lot of language barriers specifically in the public sector in Japan. This has been particularly pronounced with local standards and certifications. Interviewee B continued by stating that, even if a standard in Japan would have been a voluntary one, but the customers require it for a purchase, then the standards essentially become mandatory for successful business operations. However, a voluntary standard does not receive nearly the same language translation support or information dissemination that a legally mandatory standard would from the certification entities. This essentially results in many communication issues and inability to get certified, or in some cases even receive the knowledge of said standard existing in the first place.

This presence of a language barrier thus not only affects all interactions a company has with partner companies and the local government, but also the preparations and market research required for a successful market entry, let alone harder endeavors like participating in public procurement in Japan. Therefore despite the relative lack of attention paid towards language as a form of cultural barrier, it proves itself to be of utmost importance globally, but especially in a country like Japan where bureaucracy and red-tape are relatively high, as well as the local language is relatively hard for westerners to become

proficient in, and a lack of a lingua franca poses itself as a major hurdle for even the most basic form of business operation.<sup>1</sup>

*“Language must be recognized and reckoned with as an important factor of the economy” – Feld, S. A. (1998).*

## **Corporate Responsibility and Brand**

In East Asian collectivist nations, giving back to society in a meaningful and understandable way is also often a very key pillar in the culture's beliefs and values system. Especially in developed East Asian nations, this also results in companies being held more accountable for what they do to the society, both by their own workers and the nearby community, as well as the media at large. This can therefore lead to cases of public largely televised apologies, companies being “dragged over the coals” and humiliations, for acts that negatively impact the community, easier than accustomed to in the western world. These often affect both the company and their image as well as top officials individually.

Therefore when implementing corporate social responsibility measures, they cannot be empty words and “greenwashing” inside of reports, press releases, and social media, but instead, they need to be seen and felt inside the Gemba, which in this case would mean the workplace and locations where the social responsibility measures are taken and realized at (Heider, 2018). Especially in multinational enterprises cases, this fact needs to be conveyed and understood at a high strategic decision-making level, as it often does need the backing and support of the whole MNE.

The whole MNE and its head office's support and cooperation are also required when branding in Japan and to the Japanese audience, as it is an exceptionally important skill that comes into play both with the company's customers, supplier partners as well as potential recruits (Nesbitt, 2014). Japan's long history and innate knack for branding also interchangeably ties itself into recruitment and talent sourcing, as the country exceptionally

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<sup>1</sup> Disclaimer:

This thesis acknowledges the Japanese language as being a major barrier for entry from a foreign capital company's perspective, but unlike some other academics and researchers of this topic, in no way am I advocating or wishing for a united and common language policy to be established between the European Union and Japan due to the Economic Partnership Agreement or for any other reason for that matter. The Japanese language is an important part of the national culture and identity and should be valued as just that, therefore the onus is on the foreign corporation to acquire the necessary skills and resources to properly operate with their Japanese counterparts, not the other way around.

has over 20 000 companies that have reached the centennial year mark of operation. With Japan and its citizens, in general, being construed as a very risk-averse nation, a company that can showcase a long and successful history instills trust and confidence in the employee market. As somebody who personally went through the rigorous new university graduate job hunting period in Japan with local students, as well as having discussed job hunting with upwards of 30 friends and graduate students, 安定感, which roughly translates to “a sense of stability”, is something that arises without an exception in every conversation. The importance of said stability and sense of safety depends on the individual, but according to my personal experience, is the single biggest reason for startups being a very unpopular first employment location after graduation. These brands are household names that project in addition to their products and services, status and familiarity, more than a foreign company entering the country can provide from the get-go and many new graduates feel that they should try to enter one of these large and historical companies. It is believed that having one of these companies as an employer will provide a safe place to learn and progress at, while also providing a sense of relief to the parents of said new graduate due to reaching a prosperous career path. Also in the same way as in most societies the university one graduates from, or in Aalto University for working at the top MBB consulting firms, can be seen as a status symbol, In Japan, working for one of these large historical companies is definitely a big status symbol. This is further showcased in surveys that show out of the top 100 companies Japanese new graduates want to enter after leaving school, only eight are non-national brands (Page, 2018). Markedly different compared to Finland, where business and engineering students ranked seven foreign companies in the top 20 most attractive employers for 2020.

### **Recruitment and Hiring Difficulties**

In a 2013 study conducted by Japan External Trade Organization (JETRO) on the barriers foreign companies have with FDI towards Japan, “Difficulties in securing human resources” ranked in the top 5 biggest challenges, and had double the companies than the next barrier on the list (JETRO, 2013). This sentiment is echoed by numerous recruiting companies in Japan as well as a survey conducted in 2020, that ranks Japan as the country with the most difficulties and obstacles in recruiting and filling open positions inside of the 44 countries surveyed for the study (MG, 2020; see also the likes of: Nesbitt, 2014; Page

2018). It is an unflattering title Japan has held for 11 years running with no signs of the situation alleviating anytime soon.

The recruiting difficulties are underscored by Japan's demographics, where an increasingly aging workforce and inverted population pyramid are causing labor shortages both in the skilled and unskilled labor markets. Japan is also characterized by an exceptionally low unemployment rate while also having 50% more open job positions than applicants throughout a year, the current ratio being highest in over 40-years (Tsubasa, 2017; Page, 2018). Additionally, within the available talent pool, developed soft skills have appeared as a challenge especially among candidates and professionals in the IT and engineering-related fields.

In the past Japan, has been notorious for their so-called lifetime employment positions, and although this custom is moving aside in the 21st century, there is still a considerable lack of fluidity within the job market for professionals as the average worker is only employed at three companies during their whole career. From the applying candidates' perspective, changing jobs frequently is not a trait looked well upon by employers or the society at large and might get you negatively branded as a job hopper, thus resulting in mid-career talent being less available than in the west (Page, 2018). Whereas from an employers standpoint, recruiting or "poaching" talent from Japanese companies to a foreign subsidiary, has in some cases created a bad reputation inside the industry and in the media, something I have personally witnessed myself during my work experience in Japan.

The matter of finding these capable professionals to source and recruit is also a much bigger hurdle than most western corporations are used to, as online privacy is regarded in general much more highly in Japan. Common platforms like LinkedIn where recruiters source for talents are not popular in Japan, with especially LinkedIn only seeing less than 1% of the population registered on its platform, while other Social Network Sites who provide an extra layer of security and privacy through using usernames see a much higher percentage of users (Nesbitt, 2014).

All of the above make recruitment one of the hardest cultural barriers to overcome when entering Japan and requires "moving away from a '*why should we hire you*' mentality to '*what can I do to hire you.*'" (Page, 2018).

As we can see from the non-exhaustive list of institutional barriers and cultural barriers, they can have a markedly big impact on the operations of a corporation in various ways and in different steps of their market entry and operations in Japan. As the host country moves further away from the home country both geographically, geopolitically and culturally, the number of institutional barriers corporations have to deal with is sure to increase. However, an even acute increase can be seen with cultural barriers and unlike institutional barriers, these most of the time do not have any established guidelines or ways to overcome them, and therefore corporations are often left on their own to fend them off. Cultural barriers, however, might affect different corporations much more unevenly than institutional barriers, as they are a much more subjective matter and will greatly be affected by the people working and managing said corporation, instead of their company specifications like registered location and product categorization.

## 5. EU-Japan Economic Partnership Agreement

### 5.1. EU-Japan EPA summary

The process to a completed EU-Japan Economic Partnership Agreement (henceforth EU-Japan EPA, or just EPA) started already in 2013 with the first round of negotiations commencing in April of that year. The process was long and arduous in its entirety, going through 18 rounds of negotiations before finally coming into effect on the 1st of February 2019. (Mazur, 2016; European Commission, 2018c; Silva Pereira, 2019).

On February 1st, 2019, Japan and the EU created the largest free trade market in the world, compassing roughly 630 million people and nearly one-third of the whole world's GDP (European Commission, 2018a). EU and Japan already previously traded a considerable amount with each other, however, the new EPA is estimated to increase EU exports to Japan by up to 33% (Delegation of the European Union to Japan, 2019).

This, the agreement aims to accomplish by several different means. Out of these measures, abolishing over 90% of tariffs set by Japan on the 1st of February 2019 will have the biggest immediate impact on companies doing business in Japan (EU-Japan Centre, 2019). However, though the tariff reduction amounts to the biggest impact in the short-term, and maybe even in the longer term, it was always clear from the start that the EPA's goal was to have a large influence on NTB's as well (Mazur, 2016; European Commission, 2018c; Grubler et al., 2019). In line with this vision of producing measures additionally to



eliminating tariffs, the agreement will, with some transition times, lower entry barriers into Japan among others by:

- expanding import quotas for multiple EU products
- Provide the same level of protection in Japan as the EU to 210 Geographical Indication product categories
- Open up service markets and highly regulated industries like financial services, transportation, etc. to fair international competition and
- Allow companies from the EU access to 54 big city procurement markets for public contracts alongside domestic competition (European Commission, 2018a).

The EPA will also harmonize and streamline certification and ratification processes for imports speeding up and cheapening the process, institute strong safeguards for worker and environmental rights, ensure global and fair trade repelling protectionism sentiments and support up to an additional quarter of a million jobs in the EU (European Commission, 2019).

Other important points of notice are the first-ever inclusion of corporate governance clauses in an EU free trade agreement and the strong emphasis on sustainable development and data protection practices, for example acknowledging Japan's legislation to be adequate in comparison to EU's GDPR legislation (European Commission, 2018b).

Though this thesis will mostly be focusing on the Finnish and EU perspective on the EPA, it is important to note that multiple sources evaluate the overall impacts of this agreement to be balanced and mutually beneficial for both parties involved, though there are some discrepancies in individual industries. However, while the EPA is mostly balanced in its benefits to both countries on paper, it is worth noting that in reality, Japan is more reliant on the EU economically and is projected to gain slightly more out of the EPA, than the other way around (Deloitte, 2012; Mazur, 2016; European Commission, 2018c; Felbermayr et al., 2019).

## 5.2. The Automotive Industry

When looked at from a publicity standpoint, in the global media the automotive industry<sup>2</sup> most likely received the most coverage inside of the EPA out of any sector. Cars and vehicles, as well as their potential price changes, can also be thought of as a “sexier” industry and more media-friendly and attractive topic, than pharmaceuticals as an example, especially from the general public’s perspective. From an economic standpoint, this is understandable additionally due to the industry arguably being the most important one for the whole of the Japanese exporting economy, and therefore from the Japanese point-of-view being of crucial interest when negotiating the FTA deal. For an individual consumer, a car and its related costs are also often the single most expensive purchase right after real estate property, and therefore more easily draws the attention of an audience even with small changes.

Japan is very much characterized and perceived as a car industry nation, but in fact, while both of them are large manufacturers, the EU as a whole is the bigger one of the two counterparts. This could be a surprise to many when looking at the cars inside of the Japanese market, of which foreign manufacturers' import rates account for a measly 5%, and due to the EU importing roughly four times as many cars from Japan as exporting. Also in stark contrast to the Japanese efforts, the European Automobile Manufacturers’ Association (ACEA) strongly believes that the groundwork for the EPA negotiations was not adequate from the EU’s side. (Deloitte, 2012; Mazur, 2016).

In the following paragraphs, I will go over a case example of the Japanese automotive market, more specifically the Kei car segment, why it is very unattractive for EU manufacturers, what the existing barriers have been like and how the EPA is most likely not going to solve issues for EU manufacturers and therefore increase sales in Japan.

### **CASE: The uniqueness of Kei cars in Japan**

Kei cars are a Japanese specific segment and legal categorization of cars that are extremely compact and fuel-efficient, regulated based on the size of the engine and the size of the whole car (Tanishita and Van Wee, 2016). In recent times they have exploded in popularity

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<sup>2</sup> The automotive industry includes both passenger vehicles (primarily cars) as well as commercial vehicles (trucks, buses, etc), but due to commercial vehicles representing a practically non-existent portion of exporting both in the EU and Japan, this section will focus primarily on aspects related to passenger vehicles, and more precisely on cars.

and currently account for roughly a third of the entire car industry in Japan, with manufacturers being close to exclusively Japanese as the European A-segment city cars do not classify for this regulation. Due to this limitation, EU manufacturers are essentially excluded from a third of the car market in Japan. Below, one can see the world's most sold Kei car as well as A-segment city car, from left to right respectively.



Figure 2 - Honda N-Box



Figure 3 - Fiat 500

As the A-segment does not have strict size and engine classifications like the Kei-categorization, there is more variation between the measurements in said segment. The Fiat 500 was selected as a general representative for the city cars as it is the world's most sold A-segment vehicle. This allows us more easily to compare the two classifications based on established and popular car models.

Table 1

Measurement comparison between Kei car regulations and most sold car models

	Kei Car Regulation	Honda N-Box (2020)	Fiat 500 (2020)
Length	Max 340 cm	340 cm	357 cm
Width	Max 148 cm	148 cm	163 cm
Height	Max 200 cm	177 cm	152 cm
Engine Size	Max 660 cc	660 cm	1240 cc
Power Output	Max 47 kW	43 kW	51 kW
Retail Price	-	1 411 300 JPY / 12 240 €	2 000 000 JPY / 17 345 €

Note: Data for table acquired from JAF, 2019; Keicar Info, 2020, [Honda](#), [Fiat](#).

As we can see from the table above comparing both car models as sold in the Japanese market, popular Kei cars are often built mirroring the regulation limits, or at least very close to them. In most measurements, there is not a lot of discrepancy with the Fiat 500, as the height is within acceptable parameters as well as length and width both being within

17cm from the requirements. These are small factors and could be squeezed within the required parameters if the manufacturer wished to start classifying their cars under the Kei regulation.

The biggest discrepancies, however, are found in the engine size, power output and price tag. Most significantly the engine size that's nearly double the limit of a Kei car while somewhat surprisingly, the power output only surpasses the regulations by 4 kW despite the big difference in engine size. The Honda N-Box also comes in with a price of only 70% of that of the Fiat 500, with a myriad of other benefits the owner receives due to the Kei car classification of their vehicle (Deloitte, 2012; Tanishita and Van Wee, 2016).

*Table 2*  
*Kei Car Preferential Treatment*

<b>Preferential Treatment</b>	<b>Kei Car</b>	<b>Regular Car</b>
Weight Based Tax (yearly)	3 300 JPY	4 100 JPY/every starting 500kg
Vehicle tax (yearly)	10800JPY, 12900 after 13th year	Varies by cc, 1800cc = 36 000JPY
Highway toll fees	Approximately 20% discount	Regular fee
Car insurance fees (yearly)	Approximately 49 000 JPY	Approximately 75 000 JPY
Proof of parking space/garage	Not required	Required

Note: Data for table acquired from Avanti, 2014; MIC, 2019; JAF, 2019; Keicar Info, 2020.

These cars enjoy a plethora of perks compared to regular cars, including cheaper insurance, toll fees and car taxation. Therefore, just from a price standpoint alone, ownership of a Kei car compared to a similar regular car can already provide significant savings over the lifetime of said car. These economic savings in addition to the small size and nimbleness of the Kei car have made it a very popular choice for families as their second or third car for the household. A secondary popular segment for the Kei car is the younger generation who is cost-conscious and more aware of the amount of harmful emissions released from larger cars. Thirdly, the Kei car has risen in popularity among the elderly population who no longer have a need for a big and powerful vehicle, but do still rely on cars for transportation in their lives. Due to the smallness and nimbleness of the cars, they fulfill their purpose very well both in big cities like Tokyo with small and narrow streets, as well as in the countryside for short trips, commutes and grocery shopping as an example.

## **Regular cars and the luxury market**

European manufacturers and brands have not enjoyed success among the Japanese consumers until now, and even with an EPA reducing the price tag and removing barriers for those cars, an increase in favorability is not expected (Deloitte, 2012).

Demographically a challenging country as well, the oversaturated automotive market is predicted to continue shrinking due to a decreasing population, increasing urbanization percentage as well as a lack of available parking spaces along with their considerable price tag. (Deloitte, 2012; Mazur, 2016).

Due to a multitude of factors, including tariffs and labor costs among others, most of EU manufactured cars sold in the Japanese market are classified in the premium-market as it is not economically feasible to export large amounts of low-end vehicles into Japan as cars are a commodity with a high amount of price sensitivity. Also, the benefits of the EPA correlate to a much greater degree with the low-end and low-cost market of cars that are price-sensitive and suffer a greater impact from high tariffs. (Deloitte, 2012). Like with other industries important to the Japanese economy, there are many regulations, certificates and standards in place that do not correspond to international standards and cause significant obstacles to European companies, for example, the aforementioned Kei-car classification (Mazur, 2016).

*“Most [European] car manufacturers do not consider Japan to be a market with high potential. Hence, Japan is not an attractive FTA partner for the EU automotive sector.” – Deloitte, 2012, p. 12*

Vice Versa the situation is extremely different, as the automotive market inside the EU has a close to 20% import penetration rate as well as high projected growth and profit potentiality due to growing and expanding member states especially in the eastern parts of the EU. Japanese automotive imports thus are expected to increase by roughly 2% in the mid-term after EPA steps into effect (Deloitte, 2012).

The EPA as a whole to the EU automotive market was characterized as “disadvantageous”, decreasing production by 2,5% and that it would result in considerable job losses in the industry by the impact assessment created by Deloitte in 2012. These mid-term predictions outcomes will not be distinctly visible until roughly 2022, or even further from that due to the ongoing COVID-19 pandemic and the resulting economic shrinkage. However, the

forecasts are partly based on a very similar FTA negotiated and provisionally applied with South Korea since 2011. Japan and South Korea do possess both an extremely similar automotive industry, but regardless, of considerable note is that the Deloitte assessment was requested by the European Automobile Manufacturers Association (ACEA) who has a considerable self-interest in keeping the already competitive EU market protected from further foreign automotive manufacturers. Nevertheless, experts are in agreement that Japan got what they wanted out of the EU-Japan Economic Partnership Agreement, especially concerning the automotive industry (Interviewee A; Interviewee B; Interviewee E).

*“The major thing is that the Japanese automotive industry wins big on this agreement” – Interviewee A*

### 5.3. Comparison with the EU-South Korea FTA

Next, I examine the South Korean market and their new FTA with the EU, as Barkema, et al., (1996) constitute that a helper in market entry success rate especially in the case of Joint Ventures is the learning experience gained from entering said host market before. To a slightly lesser extent, they also believe the same is true from having experience in a very similar market, preferably one from the same “Cultural Block”. Japan, however, is a unique country and culture that does not exactly have similar counterparts, the sort of which can be found in the Nordics for example, and thus in their research, Japan constituted its own “Cultural Box”, separately from the Far East one.

Though there are no overly similar markets to siphon learnings from, it is still useful to have some kind of a reference point and the country the closest to Japan both geographically and culturally is South Korea. However, as the Barkema, et al.’s, research was published in 1996 and has a basis in many cultural research papers from the 1980s and early 1990s, including the basis of the revised Hofstede (2011), the cultural blocks may be slightly skewed and outdated. Since the mid-1980’s when South Korea was still considered a poor third-world country, their GDP per capita has more than tenfold in the following 30-years and is now forecasted to rank 9th in GDP in the world and a per capita rank in between Italy and Spain in 2020. In line with its economic rise also nicknamed the “Miracle on the Han River”, South Korea also went through rapid cultural and social changes. Thus I would ascertain that if Barkema, et al., (1996) were to redo their research

in 2021, South Korea and Japan could themselves consist of their own block separated from the rest of the Far East.

They are both highly industrialized nations, share extensive historical and cultural connections, have a high elderly population and to an extent inverted age pyramid, both have a GDP per capita close to that of the EU average, and both hold an extremely low unemployment rate and have a very similar economic composition between agriculture, industrial and service sectors. Additionally, as an extra example of the similarities between the Korean and Japanese industries and economies, they both have a big automotive sector which is crucial to their local economies, while being among the smallest penetrated automotive markets in the world with 5% and 4,8% respectively, whereas the OECD average remains over 40%, nearly ten times higher (Deloitte, 2012). This was also noticed inside the EU and is a big reason why the new age of free trade agreements was ushered in with both South Korea and Japan, both being great and influential industrial-economic powerhouse nations. South Korea and Japan having similar values and common ground made it easier for the EU as well to approach and successfully negotiate two new and big FTAs within the East-Asian region, the South Korean free trade agreement forming a benchmark and foundation for the agreement with Japan. (Alqadrie, 2018; Heider, 2018; Grubler, Reiter and Stehrer, 2019).

Therefore by comparing the impacts and results from the EU-South Korea FTA that came into force in 2011, I am most efficiently able to extrapolate and predict how the EU-Japan EPA might turn out in the long-term, as well as the short-term, a common benchmarking technique used often in similar free trade agreements (Grubler et al., 2019; Felbermayr et al., 2019).

Table 3

*Similarities between the economies and FTAs of South Korea and Japan,*

<b>Similarities &amp; Measures addressed in FTA</b>	<b>EU-South Korea</b>	<b>EU-Japan</b>
<i>EU import WAT pre-FTA</i>	2,5%	3%
<i>EU export WAT pre-FTA</i>	6,2%	2,1%
<i>Machinery &amp; Appliances trade</i>	Roughly 35% of both exports & imports to South Korea	18% of exports to Japan & 41% of imports from Japan
<i>Trade barrier dismantling timeline</i>	Most immediately, some transitions up to 7 years	Most immediately, some transitions up to 7 years
<i>Duty-free trade post-FTA</i>	Approximately 98,7%	Roughly 99%
<i>Non-tariff Barriers</i>	Focus on automobiles, pharmaceuticals & electronics	Focus on automobiles, pharmaceuticals & TBTs
<i>Intellectual property rights</i>	Addressed, including GIs	Addressed, including GIs
<i>Public Procurement</i>	Build-Operate-Transfer in Seoul, Incheon, Gyeonggi-do & Busan	Power infrastructure & 50 + designated "Core Cities"

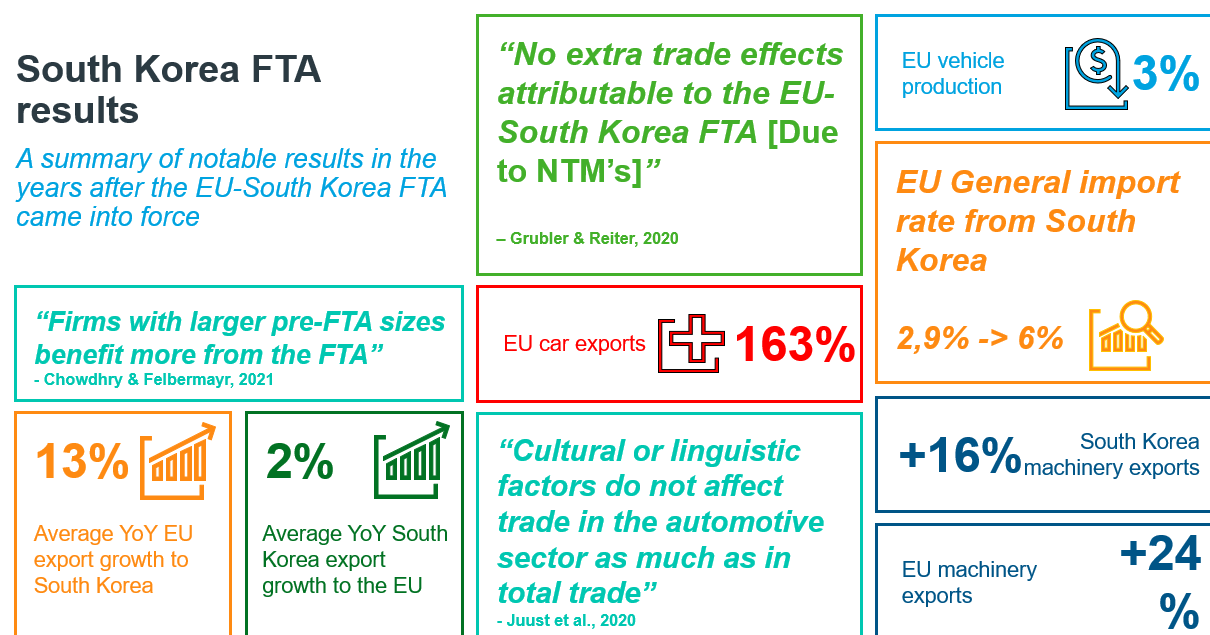
Note: Data for table acquired from Lakatos and Nilsson, 2017; Alqadrie, 2018; DG Trade, 2018; Grubler et al., 2019

From the table above one can identify key similarities between the Japanese and South Korean economies especially before their respective FTAs came into force as well as what actions were undertaken with their relative FTAs with the European Union. With tariffs being a very debated topic both among economists and the public, through comparison we are able to see that on an average level, South Korea had almost triple the size of tariffs for EU exports as Japan did. On the other hand, the EU had slightly higher tariffs in place for Japan than they did for South Korea before enforcing the free trade agreements. This is especially relevant with trade sector distribution as an underlying context. For all three parties, Machinery and Appliances trade sector accounted for a very large portion of trade between the parties, at most as much as 41% of EU imports from Japan, while accounting for 35% of the imports from South Korea.

Both agreements also very much placed immediate trade barrier dismantling as well as non-tariff barrier measures as priorities for the contracts, though long transition times in both cases were agreed upon especially in the agriculture and forest industries. Agriculture, however, unlike in the EU-Japan EPA, was not seen as one of the most important industries to tackle, but instead focused on automobiles, pharmaceuticals and electronics



through extensive NTB dismantling initiatives. This further cements the similarities of South Korea and Japan as their economic makeup is very similar and as far as NTB's go, the EU-Japan EPA focused on mostly the same areas with a slightly higher interest in technical barriers to trade. Protection for European companies and intellectual property was extensive and full Geographical Indicator support and safeguards were implemented. With the public sector and public procurement industry being approximately five times larger in Japan as well as having almost half of it focusing on health expenditures, there was understandably more effort placed behind opening the public sector for European companies in Japan rather than South Korea.



*Figure 4*  
*An overview of notable EU-South Korea FTA results*

Source: Deloitte, 2012; Forizs and Nilsson, 2017; Lakatos and Nilsson, 2017; Alqadrie, 2018; DG Trade, 2018; Grubler et al., 2019; Grubler and Reiter, 2020; Juust et al., 2020; Chowdhry and Felbermayr, 2021

Figure 7 above has listed some key results from the EU-South Korea FTA, some of which are very notable regarding the EU-Japan Economic Partnership Agreement. As discussed earlier as well, from a structure and goal perspective the EU-South Korea FTA is very similar to the EU-Japan EPA, and therefore it is rather regrettable that there does not seem to be positive trade effects that can be attributed to the dismantling of non-tariff barriers as a whole. Therefore, most of the extra worth seems to have come through the instant and gradual lowering of tariffs, which were able to boost EU exports by approximately 13% Year-on-Year for roughly 5 years post-FTA. A trend of lower effects for South Korea was

noted throughout various sectors, accounting only for a 2% general YoY growth on exports, though arguably the most important sector in the EU-South Korea FTA, the machinery and appliances sector, was able to rebuke the rather low export growths for South Korea, although EU growth almost doubled that of South Korea.

With South Korea responsible for the fifth largest automotive industry in the world, just like with the EU-Japan EPA, there was a lot of discussion and concern around the automotive industry before the South Korean FTA came into force. Many concerns were raised about the EU automotive industry receiving the short end of the stick and becoming a punching bag due to the FTA, and according to preliminary results, production of vehicles inside the EU did go down by a couple of percentages. However, contrary to most estimates, the EU automotive industry and exports actually became one of the biggest gainers throughout all sectors, boasting an over 150% growth in exports in the following five years. This increase could be explained by the findings that claim the automotive industry to be very culturally neutral compared to many other industries and not suffer from the effects of cultural barriers which have and continue to be a considerable obstacle in South Korea, just like they are in Japan.

*“Growth in a sector not only indicates an increase in production, but it also indicates the robustness and vitality of a sector.” – Alqadrie, 2018*

The quote above from Alqadrie (2018) does not appear to be true in regards to the EU-South Korea FTA, as production of vehicles inside the EU actually went slightly down, while exports grew at an exceptionally fast rate. It does, however, hold true with stating that the EU automotive industry is robust and competitive, thus the worries of increased unemployment and wellbeing of individual people due to the EU-Japan Economic Partnership agreement might not hold water, and we might unexpectedly again see a growth in the EU automotive industry.

The EU-South Korea FTA results shine a good light on EU and the new type of FTAs negotiated by the European Union, however, it is of considerable concern that a large majority of the economical gains from the free trade agreement, were accounted only by large institutions, with SMEs resulting in a very marginal amount of trade boost. Further calls for including more robust SME chapters into EU FTAs have been fielded and the EU should definitely provide increased support for SMEs trying to enter into Japan with the

new EPA in order to not repeat the same lopsided gains structure (see the likes of Alqadrie, 2018; Chowdhry & Felbermayr, 2021).

In the end, looking back at the results as a whole, there is a near consensus that the EU had more to gain from the FTA with Korea and the impact especially on EU exports was greater than to that of Korean exports. This can partly be attributed to the trade environments being different pre-FTA and thus EU gaining a greater benefit from the level ground provided by the FTA. This can be observed especially well in the Miscellaneous manufactured articles section of goods, where over a span of 5-years, starting from 1-year pre-FTA, the European Union exports grew by an outstanding 50%, while at the same time the imports from South Korea, took a dip of roughly 10% (Alqadrie, 2018). That amount of swing in a trade balance definitely is slightly unusual and could be seen as worrying, though on a general level both definitely did obtain economical benefits from the FTA. How big of an advantage the EU gained over South Korea though, is slightly unclear due to concerns around how much trade balances should or should not be used as a metric to estimate the impacts of an FTA (Lakatos and Nilsson, 2017; Alqadrie, 2018; Heider, 2018). It is, however, expected that Japan would gain bigger benefits from the FTA than South Korea would, due to their economy's bigger size and increased influence during their trade negotiations (Felbermayr et al., 2019).

Inadvertently there were also indications that the EU-South Korea free trade agreement caused deviations in trade flow between the EU and Japan after the ratification of the FTA agreement, causing imports from Japan to the EU to drop while imports from South Korea were considerably on the rise (Grubler et al., 2019). This is a phenomenon often theorized and sometimes observed between countries in the same region when one of them signs a new free trade agreement with a major trading partner. Interviewee E agrees that the aforementioned trade flow deviation occurred due to the EU-South Korea FTA and believes it was also a driving force from the Japanese perspective to get a good free trade agreement through with the European Union. This pattern could possibly reverse due to the EU-Japan EPA in the next couple of years (Felbermayr et al., 2019).

It was additionally concluded that especially among SMEs there should have and still should be more awareness built around the EU-South Korea FTA, its benefits and how to make use of it to its full extent, to increase the incredibly low utilization among that target group even now close to 10 years since the ratification. The world has also changed

drastically from the implementation year of 2011, with technologies and concepts the like of AI and Big Data, thus igniting conversations about possibly renegotiating or amending the Free Trade Agreement (Lakatos and Nilsson, 2017; Alqadrie, 2018).

However, a comparison between the EU-South Korea FTA and the EPA from a utilization rate and remaining barrier standpoint might be rather unfruitful. According to Interviewee C, one can not really directly compare the EU-Japan Economic Partnership Agreement with other agreements the EU has negotiated before, because this time around EU and especially the EU Commission has started to pay a lot more attention to the execution and implementation of their free trade agreements, instead of just the negotiation phase.

## 6. Immediate and expected implications of the EPA

### 6.1. Shifts in market entry strategy methods to Japan

#### **Exporting**

With tariffs already generally being on a very low level with agricultural products being an exception, the even further lowering of those is not expected to make big waves and changes. However, there might be some demographical changes in who utilizes exporting and how from here on forwards.

Especially looking from an agricultural perspective, Interviewee A explained that due to the vastly different dietary habits between the Nordics and Japan, it is very unlikely that a Nordic exported product could compete with local products to become a staple food in their diet. This in turn causes logistical and financial problems to companies, as they are often unable to export in bulk and create a profit out of their offering. The aforementioned is true especially if it is an everyday life product in the home country, as an individual without considerable disposable income is not going to change their habits, routines and diets just because a product's origin is from one of the Nordic Countries. The result of this has been companies, according to Interviewee A, turning more and more towards the luxury market in Japan. Even if it is something as simple as Emmental cheese, it would often be considerably marked up in price and marketed to a totally different customer segment to create a high sales margin to drive profits through from. Due to products not being exported to Japan in bulk and the profits mostly coming through higher margins instead of a higher volume, some small- and medium-sized companies were not at a

considerable disadvantage due to the lack of scales of economies in their own market entry operations.

With the establishment of the EU-Japan Economic Partnership Agreement and the somewhat controversial Rules of Origin that come with it, this situation could somewhat change in the favor of large-sized companies at the cost of SMEs. There has already been some discussion that companies are unwilling to make use of the tariff reductions in the EU-Japan EPA because of the requirements set for receiving those benefits (Interviewee E). Those requirements in essence being the ROOs. As discussed in Chapter 4.1. and stated by Interviewee D, Rules of Origin require a considerable amount of manpower, very specialized knowledge as well as clerical work and bureaucratic work to make use of, if SMEs are even aware of ROOs in the first place. They also have a deterrence in the form of mistakes possibly costing a fortune in backlogs of tariff payments and require companies to divulge a considerable amount of sensitive internal information. Additionally, with even small SMEs stuck with decoding and interpreting the Rules of Origins alone, the risk might be too much for a considerable amount of companies (Interviewee E).

“[Regarding problems with Rules of Origin in Japan] *It has to do with what kind of information companies are required to disclose to the Japanese customs authority, and whether that type of information would already be considered to be on the side of trade secrets.*” – Interviewee C

“*A small company really has to think about it. Rules of Origin are the single most hard and cumbersome technical aspect in all of international trade policy.*” – Interviewee E

SMEs are therefore much less likely to go through the immense effort required and reap the benefits of said ROOs in the end, which further would not be as significant as with MNEs due to the lack of economies of scale present. Although whether ROOs, scales of economies or a combination of both are to blame or not is still unknown, the trend of SMEs not reaping the full gains from the FTA has already started to occur as discussed in Chapter 5.3 in relation to the EU-South Korea FTA. With the South Korean FTA structure-wise being very similar to the EU-Japan EPA, we can foresee the same concerns and problems arising due to the disadvantage that the Rules of Origin place on small- and

medium-sized enterprises. As South Korea and Japan both have economies very similarly structured, as well as having comparable cultures from a European perspective, extrapolating results from the South Korean FTA to the EU-Japan EPA is rather simple. Therefore, I anticipate that most of the benefits from the EU-Japan EPA will be reaped by MNEs instead of SMEs, just like what happened with the EU-South Korea FTA.

With these factors in mind, one could conjecture that from the consumers' perspective in Japan, they will be seeing a larger repertoire of products coming in from Europe. These would most likely be in a larger quantity for some of the products they've seen before and probably at a lower price point as well. However, from the business perspective, we can speculate that due to the Rules of Origin option being now present, small- and medium-scale companies might be pushed out from the market due to stiffer competition from large-scale companies able to utilize the ROOs to their full extent. Hence, we might see a demographical shift in the number of large-scale companies exporting in bulk to Japan while small-scale companies are driven out into more niche markets where they can sustain themselves with a low quantity – high sales margin exporting strategy.

### **Joint Ventures**

One of the things most likely not to change due to the EU-Japan Economic Partnership Agreement or anytime in the near future, is the use of joint ventures as a market entry strategy, and a relatively successful one at that, for European and especially Nordic companies when trying to enter the Japanese market.

As discussed in Chapter 4, there are a multitude of market entry barriers related to Japan, of which only a fraction have been listed in this thesis. Broadly speaking, here they have been categorized into Institutional Barriers and Cultural Barriers, of which the EU-Japan Economic Partnership Agreement is addressing mainly the Institutional Barriers. This, of course, is a given as free trade agreements and the mandate given to them through their respective governments very rarely have any power, method, or will, to affect the cultural aspects and business environment of a participating country. At the same time, there is a very valid argument that FTAs should not be interfering in anything culturally related, even if there was a way of doing so, albeit it possibly having a negative impact on cross-border trade.

From a company's perspective though, this very much decreases the value of an FTA as big as the EU-Japan Economic Partnership Agreement, as all five interviewees recounted that in Japan's case, the multiple Cultural Barriers and extraordinary business environment are a significantly bigger obstacle to overcome than their Institutional Barrier counterparts. A stronger brand and image presence, consumer trust as well as language support, all Cultural Barriers recounted in this thesis as well, were specifically singled out by Interviewee A as impactful Cultural Barriers that joint ventures can aid with and therefore results in it being a recommended market entry strategy for a large number of companies trying to enter the market in the past and present, especially if they are not already established and well-known MNE's operating in a multitude of markets.

Picking the right form of market entry strategy can definitely help a company deal with different market entry barriers in a better and more efficient way. However, it does not discard or in any way mitigate the importance and obligation a company has to conduct the usual market entry due diligence research regarding target customers, current trends, product-customer fit, pricing or packaging, just to name a few.

Therefore, Interviewee A strongly emphasizes that *"it's more than just the entry strategy that is relevant to consider when you enter a market like Japan"*. Notwithstanding though, Interviewee A also recounts that joint ventures have enjoyed a higher success rate as a market entry strategy to Japan compared to for example a high-risk high-reward endeavor like greenfield investments and acquisitions. For that reason, though exporting methods are most likely to receive a boost due to tariff reductions, we can expect joint ventures to keep their status as a popular and successful market entry strategy towards Japan. Furthermore, with Institutional Barriers further and further being reduced due to the EPA, while Cultural Barriers remain high, we can theorize joint ventures and other co-operative methods to rise in popularity as they are market entry methods that can help alleviate the obstacles and hardships caused by Cultural Barriers for foreign companies.

## 6.2. Practical changes due to the EPA

### A slow ramp-up in EPA utilization

*“These free trade agreements are so convoluted that it’s not just smooth sailing after the agreement is set in force, but instead they require continuous work.” – Interviewee D*

Though all five of the interviewees were aware of the EU-Japan Economic Partnership Agreement already during its negotiation phase and up all the way until its ratification, there were worries about the amount of knowledge corporations had and whether the information was in the right place at the right time, to allow companies to act on it (Interviewee A; Interviewee B; Interviewee D; Interviewee E). Interviewee B additionally stated that some companies were notified of the existence of new negotiations for an impending EPA by different sources already at a very early stage and they showed immense interest in the topic. Unfortunately though, due to the higher staff turnover in private companies, the informed type of knowledge was on occasion a part of the brain drain leaving those corporations as well (Interviewee E).

*“It’s one of the problems of why it isn’t known about [The EPA] where it should be known at.” – Interviewee E*

Interviewee E also somewhat disagreed with Interviewee B on the matter of interest. Interviewee E explained that after notifying or contacting any company while the EU-Japan Economic Partnership Agreement, or any FTA for that matter, was still in the negotiation phases, the companies would lose interest exceptionally rapidly. In some cases, it could have been even 10 years out from the EPA coming into force, when some of the companies were first notified of the FTA. Typically companies will not be actively monitoring the situation throughout the years with people changing companies and things also naturally being forgotten over the years. This causes problems with the information flow and readiness of companies as well.

*“... as companies will be asking ‘When can we get the benefits [Regarding the EPA] for ourselves?’ but when they get told that ‘Negotiations will last for a year or so and another 2 years for coming into force plus a 5 year transition time for tariffs so maybe*



*in like 8 years', the interest is gone really quickly after that."* –  
Interviewee E

On the other hand, regarding the mass media and public communication around the EPA, in particular, Interviewee A felt that there was very little press and information provided towards companies regarding the EPA, so that the companies would be in position and prepared to act when the EPA came into force. Interviewee D agreed, stating that companies in both Finland and Japan need additional information regarding the EPA and that it is not known about either inside companies or by regular citizens, proving how hard it is to get through with and disseminate information. According to Interviewee E, however while not perfect, the situation is much better than it was even in the early to mid-2010s, when trade policy-related news were still rather absent from traditional mass media news outlets. Both interviewees A, as well as D, continued by clarifying the noticed and encountered difficulties around information dissemination regarding the EU-Japan Economic Partnership Agreement.

*"With the world so full of information already, how would a small- and medium-sized enterprise all of a sudden catch hold of the news regarding the EU-Japan Economic Partnership Agreement"* -  
Interviewee D

*"Almost no European company ... had any time to prepare, so at the time when the EPA was put in power, all of the people I spoke to ..., they scrambled to put materials together and I remember how people were gathering statistics from Japanese data banks and [National] data banks and investments, to put together figures. It's the best **what shouldn't have happened situation.**"* - Interviewee A

*"We got more press about [the new NAFTA, USMCA] in Europe than about the EPA with Japan, which is **really strange.**"* -  
Interviewee A

The above kind of information disconnections, therefore, contribute to the bumpy start and slow ramp-up the EPA had upon coming into power. Consequently, it will take multiple years to see any concrete upticks and significant increases in trade volumes, both because of a lack of knowledge regarding the EPA upon completion, tariff transition times in some

key industries as well as the sheer amount of bureaucracy involved in a market entry to Japan. Interviewee B stated that despite some tariffs immediately falling to 0%, they were not aware of any other immediate benefits companies were likely to make use of right after the EPA was ratified. They continued by stating that due to the long transition times in some key industries, as high as 7 years in some cases, we are essentially in a waiting period currently where the tariffs automatically go down little by little every year. Then it is also up to each individual company to do their own analysis of when they feel the tariffs have reached a low enough point to enable profitable business in Japan. Interviewee E agrees with the above sentiment by Interviewee B, stating that the long transition periods are one of the biggest disappointments in the whole EPA, exactly for the reasons aforementioned by Interviewee B. 7 years being an exceptionally long time when developed nations are securing a free trade agreement (Interviewee E).

Another considerable note to consider regarding the slow pick-up of the EPA, especially on the Japanese side, is the homogeneity of the Japanese society. When a company is entering a new market, often the early adopters of said product or service are those who are already familiar with it in the past. In our context, therefore, those early adopters would be the Finnish, Nordic and European expatriates that are currently living in Japan. This could though be slightly expanded to include other industrialized Western countries like Canada and Australia as examples. As early adopters are the first ones to use a product in a given market, they also often become influencers and word-of-mouth marketers for said products as well, proving to be an exceptionally valuable customer demographic for the company.

In Japan, however, according to the Statistical Bureau of Japan (STAT, 2021), the country in 2019 had a population of 126,17 million people of which ethnically Japanese were 97,7%, while the relatively homogeneous Finland had the same statistic at 92,7%. Out of all of the foreigners residing in Japan though, over 90% are covered by other Asian nations and Brazil, with The United States by far being the largest population out of any industrialized western nation in Japan, by accounting for 0,05% out of the whole population of Japan. The UK on the other hand accounts for the largest population from a European nation with roughly 18 000 individuals, resulting in slightly over 0,01% of the population in Japan (STAT, 2021). This is a stark contrast on the other hand to how the Japanese account for approximately 0,13% of the population in the UK, comparably a ten times larger expatriate population.

With the above context along with the language barrier in consideration, we can see how low the amount of potential early adopters from an expatriate standpoint is and how their influence on the larger Japanese population can be seen as extremely minuscule. These factors as well as the earlier mentioned knowledge voids and tariff transition times will contribute to a slow start for the EU-Japan EPA utilization, resulting in the first bigger partnerships from EU companies being concluded around the 5th year of the agreements (Interviewee A).

### **The process of entering Japan**

Joint Ventures were identified in the interviews as well as previous academic literature (see the likes of Nakamura, Shaver and Yeung, 1996; Makino and Neupert, 2000; Oyebola, 2018) as an especially strong market entry strategy to use while entering Japan, with Interviewee A stating *“most of my recommendations are joint ventures”*. One of the reasons given by Interviewee A, and backed up by research as well, is that joint ventures as an entry method have historically been a proven and successful method to enter Japan. In the past, joint ventures have also been preferred by Japanese companies as an operating model when conducting business together with foreign corporations in the Japanese market. (Richter and Vettel, 1995; Nakamura et al., 1996; Makino and Neupert, 2000; Boyd, Goto and Hollensen, 2010 ).

While subjectively speaking Finnish people often find life and living in Japan very comfortable and similar to the mannerisms in Finland, the business culture can at times be drastically different, necessitating the use of local knowledge, a joint venture, or an intermediary. Traditionally speaking the Japanese business environment is exceptionally hierarchical and based on collective agreements through multiple rounds of negotiations between the partner and inside the organization. Interviewee A especially expressed a great amount of frustration on Nordic companies' part, when the Japanese counterpart in meetings turned out to be just a “go-between” connecting the Nordic company and upper management at the Japanese company. These grievances often revealed themselves because the Japanese counterparts were not able to make decisions and move forward with the project, let alone sign contracts for the Japanese corporation.

With Finland often characterized as having very flat organizational structures, these differences might be very unexpected and without adequate preparation can cause a project to stall or a whole partnership to dissolve at worst. According to Interviewee A, especially

the rigidity and slowness of the Japanese business culture has caused issues for some Nordic companies, as they've been too impatient and interpreted the slowness of the process as the Japanese counterparts not being enthusiastic or interested in the endeavor in question. This leading to unfortunate situations, due to a perceived lack of interest towards a deal, where the Nordic company has already moved on when the Japanese company has reached out with an intent to sign a contract. This “*surprisingly large*” amount of frustration, however, has not been the case on the other side of the aisle and the Japanese corporations have been left perplexed when it has returned with a positive proposal to move forwards with a deal.

*“It takes a lot longer time for Japanese people to come to a decision, even if they're really interested”. – Interviewee A*

Interviewee A also strongly emphasized the cultural differences between the Nordics and Japan in how not just negotiations but also creating a relationship and trust is a much longer, time-consuming, and arduous process than what companies are usually used to in the West. This is especially true if the company going through a market entry process is one without a strong image present in the Japanese market, therefore an ability to create relationships well is not just a coveted skill, but one of the requirements when entering Japan. Networking has become a buzzword used all around the world, but it actually rings the truest in Japan according to the market entry experts. The words of Interviewee A “*If you want to succeed in Japan, you need to be able to build relationships*” were echoed out by slightly over half of the interviewees, as according to them, trust is a key pillar to doing business in Japan efficiently. And firstly, in order to build trust, you're required to build up your long-term relationships with these various other parties. The aforementioned parties also explicitly need to know that you're invested in this project for the long term instead of only focusing on short-term profits and success. This is also reflected in a tendency for Japanese companies to value market share to a much higher level than revenue or profit margins, as market share provides a more stable long-term foundation.

Multiple interviewees, however, reiterated that when entering a market like Japan, there are so many variables and matters to consider that the market entry strategy is not the end-all of everything, neither before the EPA period nor after it.

It was also echoed by Interviewee A, that due to the amount of both institutional and cultural barriers to entry, Japan is not the most friendly market for SMEs to try to enter to,

stating that “smaller companies that have a particular product, they probably need to find a partner”, and would rarely be able to operate successfully in Japan alone. As discussed in Chapter 6.1., however, this trend is unlikely to change and due to the Economic Partnership Agreement coming into force, SMEs might see their share of trade towards Japan shrink even further.

As discussed in Chapter 6.1 (Shifts in market entry strategy methods to Japan) as well, even after the ratification of the EPA, the actual process itself of going through a market entry to a foreign market is far from an easy one. Though most companies have to go through intense market research on their market entry method, pricing et cetera, some companies start even a few steps behind, still wondering what product or service they should even enter the market with in the first place.

[Most companies] *know that Japan is very big in pharma, chemicals, automotive and a few others, but more than that you don't really know, so like 'okay what are the biggest areas of the Japanese industry and what can we get into, what relationships do we have, who are the biggest companies and who should we talk to?'*” – Interviewee A

When discussing about what products or services a company should enter the Japanese market with, Interviewee A often references the search for “*the new salmon*”. This is in reference to “Project Japan”, an initiative created by the Norwegian Government in the latter half of the 1990s in order to export salmon to Japan in large quantities. Though Japan’s diet always had seafood involved in large proportion, sushi had always centered around tuna, while salmon was only consumed cooked or grilled. Even then it very rarely was a part of the local diet, with raw salmon consumption being close to zero still at the start of the 1990s. The Norwegian Government, therefore, did not find an existing opportunity and demand for a product, but through painstaking campaigning and image transformation, created the demand for salmon from scratch and changed the local diet in Japan, especially related to sushi, for forever. So now, what companies and trade promotion organizations are trying to do with the assistance of the EPA, is to find “the new salmon” for their own companies or countries.

Though finding this “new salmon” would definitely be ideal before going through market entry, Interviewee A has characterized finding one as very unrealistic as well as out of

reach for most corporations and has not seen any indications of one being found themselves yet either. However, another major element companies are looking for when entering Japan or any other market, is stability and consistency. According to Interviewee E, the latter part of the 2010s has been especially turbulent due to various trade wars, increases in protectionist trade policies, and so forth. Therefore, there has been a considerable lack of, and increasing need for, consistency and stability in the market. Due to this EPA, though, both of them are now being offered to companies which will hopefully make market entry and predictability longer into the future more possible.

### **Dealing with the remaining market entry barriers**

An unfortunate reality is that at the very least during our generation, such a situation as completely free trade with zero barriers hampering the trade of goods, services or digital products across borders does not exist. Even with a plethora of extensive free trade agreements, some remaining market entry barriers will always be left behind, while some new ones might be built to replace the ones dismantled before. Therefore, though a majority of people and corporations would like to see a free-flowing trade without obstacles, companies will to a certain degree have to get used to being faced with a varying intensity of barriers.

*“There is actually no such thing as free trade. Trade flow is never free as it is always associated with bureaucracy and money and other things. So there will also always be a plethora of barriers to trade even between EU and Japan, they won’t completely be erased by this contract.” – Interviewee E*

The method in which companies deal with the plethora of market entry barriers of course highly depends on the company, their goal, and their management methods. According to Interviewee E, in many cases, companies also do not consciously register that they are actually dealing with a market entry barrier instead of just a hick-up or problem in operations, especially if it is a cultural barrier. Therefore, the true amount of market entry barriers present in a market can very much be unclear, as well as the successful and unsuccessful actions companies have taken and will take to overcome and deal with them. As at the end of the day, problem-solving is a key function and responsibility of any companies activities, as well as a coveted skill from current corporate employees as well as new recruits.

*“In practice, when companies face a problem they either solve it themselves by going around it or finding something new to tackle. It can also be that a barrier is only solved through time and money, or that the company then just fails to enter a market with these products”* – Interviewee E

*“[In relation to market entry barrier lists gathered by Governmental agencies] they are only a fraction of the barriers companies, in reality, have to face. That will always be a challenge”* – Interviewee E

With companies unaware of the market entry barriers they are facing, they are also not going to be notifying and communicating those issues forwards to government entities responsible for looking into market entry barriers. With the above two quotes and context in mind, this, in turn, feeds into an endless loop of lack of information and inability to take measures against all of the barriers present, or the right ones at the right time. Furthermore, with companies not identifying market entry barriers correctly, this information most likely also is not disseminated to other partner or competitor companies attempting and presumably facing the exact same issues. Though, even with correct identification, the above type of information is shared rarely between corporations (Interviewee E).

Despite this, on a more generalized level, there's a noticed difference between how Nordic countries approach their Japanese market entry, to how American counterparts conduct their market entry to Japan. Interviewee A describes a strategy employed by many established and big American corporations as the *“brute force strategy”*, where essentially the company's mindset when entering the market can be boiled down to

*“you can just go on and do whatever you want.”* - Interviewee A

A noteworthy point to consider with this approach though is that the risks are definitely higher, though the possible rewards go hand-in-hand with it. This, however, is in no way a one size fits all kind of situation, but mostly only is applicable with greenfield investments which are a popular market entry method in The United States. This, because greenfield investments can be executed mostly solo, without a 3rd party Japanese partner, who in Interviewee A's expert opinion would most likely get either *“very defensive”* or *“stop contacting you”* if a brute force strategy were to be employed in order to ignore the

cultural differences in the business landscape in Japan. This approach would eventually lead to a “*gridlock*” where the partnering companies “*can not do anything*” anymore resulting in the collapse of the partnership.

On the contrary, Nordic companies tend not to use the brute force strategy, but instead “*adapt as much as possible to the local business culture*” and look towards recruiting talents and experts that allow them to bridge the divide between the two cultures and “*hit that sweet spot*” as precisely as possible. However, as discussed in Chapter 4.2 (Cultural Market Entry Barriers), recruitment and hiring difficulties can be a major obstacle for companies, especially Nordic ones when entering Japan, and according to Interviewee A, though it would be an ideal solution, hitting that “*sweet spot*”, is very uncommon. In order to obtain that uncommon solution, a company would ideally find a talent who is native to one of the two countries, while also having working experience in the other country as well as business proficiency in the language and understanding of the culture. From a single numbers perspective alone, this places the Nordic countries at a severe disadvantage in comparison to many of the bigger economies of the world, say the USA, China, Germany, UK and France. Though the Nordics enjoy an exceptionally good country image in Japan, this is not enough to produce a substantial amount of either native Japanese or Nordic talents for these kinds of roles.

As an example we can take Finland, with Helsinki being the geographically closest capital in the EU to Japan, and also having a psychological distance smaller than that of many other EU countries. Finland's population is roughly 5,5 million as of 2020, this being 23 times less than the 126,5 million of Japan, and only roughly equal to Hyogo Prefecture, housing the city of Kobe, ranked only as the 7th largest in Japan. The amount of Finnish people currently living in Japan, though proportionally very high, is also estimated only at around 650 people as an absolute number, while about 2000 Japanese citizens are residing in Finland. In order to cultivate more potential talents able to bridge the divide, fluent language skills are a very important skill. Unfortunately in Finland studying the Japanese language at a higher than beginner or intermediary level at an institute of higher learning is currently close to impossible, with one of the rare exceptions being the University of Helsinki East Asian Studies degree program.

Therefore, for the vast amount of companies conducting business between Japan and the Nordic countries, the recruiting and hiring difficulties result in a very high cultural barrier



in which very few can reach the “sweet spot”. These high cultural barriers were also a frequent topic during the expert interviews. And while there is some excitement around the EPA and corporations are looking forward to market entries to Japan with the assistance of the EPA, Interviewee D states that the negotiated contract does not do anything to help with the cultural barriers of entering Japan.

*In order to achieve a successful market entry, a company would be required to find a link to Japan, network broadly and create extensive and long-lasting relationships with the locals. And while these may at times seem like set-in-stone institutional barriers, they're in fact not. Simply put, they're just a part of the country and culture and the negotiated Economic Partnership Agreement won't allow companies to skip or skirt around it - Interviewee D.*

An exception to the rule, however, can be found in the automotive industry, which has been referred to as being an exceptionally culturally neutral industry and has therefore been able to avoid and skip past most of the cultural barriers that cause issues to many other companies in various industries. Though the automotive industry was forecasted to receive losses both with the EU-South Korea FTA as well as now with the EU-Japan EPA, the industry in fact eventually became one of the big winners from the European perspective. This was attributed to NTBs and tariffs being dismantled and cultural barriers having no considerable impact. Though forecasts have also pointed towards EU suffering yet another loss in the automotive sector with the EU-Japan EPA, and admittedly Japan having a much larger and competitive automotive sector than South Korea, I believe that there definitely could be opportunities available in Japan for exporting post-FTA just like there were in South Korea. It has also become a much more common sight in the past 5-years or so to see either imported European or American cars in wealthy neighborhoods, and the mere ownership of an “imported car” is currently seen as a status symbol in Japan, though those vehicles do more often than not also place themselves into the higher end ranges of either sports cars or SUV's, followed by older famous retro models. The cheap Kei car and mass-produced sedans are most likely still not going to become competitive against the Japanese automotive giants, but lately, there has been a resurgent trend especially among the younger generation to look at car purchasing from the perspective of hobbies and “fun”, in addition to the regular benefits of owning a car. This trend was also further elevated due to the ongoing Covid-19 pandemic and people's need to find activities

they can conduct while socially distancing from others. Therefore, I presume that the EU will have at least a couple of automakers that can capitalize on these trends and increase their presence in the Japanese market within a few years of the EU-Japan EPA coming into force.

Unfortunately for European companies, there are no signs of any other industries being as culturally neutral as the automotive sector, and therefore they will most likely face the full brunt of cultural market entry barriers when trying to establish operations in Japan.

Furthermore, on top of the plethora of cultural barriers present in Japan, which Interviewee E feels like are rather hard to make into concrete obstacle examples at times, they believe that Japan, in general, has had an “*attitude problem*” when it comes to liberating trade.

Japan of course has a very long and infamous history of being a closed-off country that did not conduct trade with the outside world until it was forced to open its borders to trade by force during the Perry Expedition of the 1850s, with the threat of war if they did not.

Interviewee E feels like Japan still to an extent has remainders of this mentality stating that there is a general urge to protect the domestic markets and shield them from outside competition. Interviewee E also mentioned that there’s a fear about how much Japan will be respecting the implementation of the EPA and dismantling of existing barriers, worrying that there might be loopholes or new barriers erected and whether the market will really open at all.

Because of the aforementioned hesitations, the cultural barriers, which the EU-Japan Economic Partnership Agreement is not able to touch, will most likely be in force for a rather long time. Most likely until generational shifts in the society at large and for example, a higher level of English language acquisition, can be seen on a large scale.

### 6.3. The EPA relevance for Finland

International trading and especially competitiveness in it is an integral part of the Finnish economy and is also the defining backbone for our economy’s and society’s wellbeing. Despite this, the amount of exporting Finlands SMEs contribute to the total amount of Finnish exports is still very limited. Thus growing the portion the SMEs contribute is the key to harnessing international trade for the benefit of our society (Häkämies, et al., 2016).

Finland also trades extensively in sectors that usually do not often see an uptick with new free trade agreements, like forestry, paper and the pulp industry, which are core pillars of Finnish exporting. Contrary to previous FTAs, however, this EU-Japan EPA could prove

to be a good platform for Finnish industries. Reasoning being, that the EPA especially targets some key sectors that are strong points and opportunities for Finland, like dairy products, textiles, design and so forth. Agriculture, for example, had a trade-weighted average tariff of 11,1% before the EPA implementation, while non-agricultural products had a WAT of roughly 1,2%. This illustrates a key point for Finnish agriculture exporting to Japan, as before the EPA came to effect agriculture products which Finland is strong at, were tariffed at nearly ten times the rate of other product categories. (European Commission, 2018c; Grubler et al., 2019).

*Table 4*  
*Pre-EPA Weighted Average Tariff comparison between EU and Japan*

	European Union			Japan		
	Total	Ag	Non-Ag	Total	Ag	Non-Ag
Trade Weighted Average Tariff	3,0%	7,8%	2,6%	2,1%	11,1%	1,2%

*Note.* Data for table acquired from European Commission 2018c

The above figure very well illustrates the differences between WAT's that were in place during the Pre-EPA era. Interestingly as well, the total tariff percentage for the EU side was higher than it was for the Japanese side, but it was also spread more evenly between agriculture and non-agriculture sectors. This, even more, highlights the high tariff protectionism that was in place for the Japanese agriculture sector and why it was a key point of the legislature in the EPA right from the start, though an agricultural focus is usually largely absent in free trade agreement negotiations. (Mazur, 2016; Alqadier, 2018; Grubler et al., 2019)

Very promisingly though, already before the EPA coming into effect, there were signs that pointed towards Japan being a very suitable target market especially for Finnish SMEs and even more so in the key sectors mentioned earlier. Normally big MNE's dominate the total value of exports while comprising an extremely small percentile of the total share of companies operating in that market, but in Agriculture, Forestry and Fishing, both the share of companies being SMEs and their total value of exports account for approximately 95% of the total share. Additionally, in the textile industry SMEs also reach an almost 60% share of the total exporting value, indicating that these industries unquestionably are open for small- and medium-sized enterprises and even more so now with the effectiveness of the EPA. (Mazur, 2016).

Therefore, especially the projections that up to 85% of agriculture and food industry products will be exempt from all tariffs and duties after a transition period, should provide a big shining beacon of light for Finnish companies in the agriculture industry planning on entering the Japanese market.

*“The big win for Europe is that we can sell agriculture products.” –*  
Interviewee A

The above expectations, however, are contradicted by the research conducted by Grubler et al., (2019) who created a gravity model to compare the forecasted real value-added figures of the EU-Japan EPA on Japan and all of the then 28 EU member states (pre-Brexit).

*Table 5*  
*Comparisons of Real Value Added between Japan and key Nordic Countries*

	<b>Japan</b>	<b>Finland</b>	<b>Sweden</b>	<b>Estonia</b>	<b>Denmark</b>
<i>Agriculture</i>	0.015	-0.002	-0.002	-0.001	0.010
<i>Total Manufacturing</i>	0.296	0.079	0.100	0.112	0.112
<i>Medium-High tech Manufacturing</i>	0.623	0.074	0.073	0.129	0.017
<i>High tech Manufacturing</i>	-0.024	0.008	0.017	0.016	-0.001

Source: Grubler, Reiter and Stehrer, 2019<sup>3</sup>

The results of the gravity model analysis in Figure 9 paint a very gruesome picture for Finland based on the prospects of the FTA and showcase a much more lopsided benefit for Japan than many of the other member-states. Based on the analysis, Finland is predicted to bottom the list of Nordic countries gaining value-added from the EU-Japan Economic Partnership Agreement in both the agriculture and manufacturing industries, both key industries for Finland's economy. Especially worrisome is the prediction of Finland having a figure of 0.002 real value lost in agriculture, due to the EPA, though Sweden shares to bottom spot and Estonia is not far off either. As a big contrast though, Japan's figure of

<sup>3</sup> In Figure 9, Grubler et al., (2019) define real value added as each industry's contribution to the country's economy as a whole. The changes are presented as percentage changes for real value added due to the dismantling of tariffs and improvements in institutional barriers

0.015 is on the other end of the spectrum and only second to Malta out of any country analyzed.

The manufacturing industry was split into 4 subsectors, Low tech, Medium-Low, Medium-High and High tech. However, a majority of the manufacturing trade conducted between the EU and Japan is in the Medium-High and High Tech subsectors, while the EPA is envisioned to have the biggest impact on those as well. In this comparison, we are thus focusing on those 2 subsectors and the total real value added for manufacturing primarily. Firstly looking at manufacturing as a whole, comparatively the negative trend for Finland continues as it is forecasted to gain the least out of any of the Nordic countries by a significant margin. The underwhelming trend continues in the Medium-High tech manufacturing subsector, though Sweden and Denmark also fare much worse in the above subsector and if made into a list, would now finish below Finland. Sweden, however, compensates for this lack of value added by gaining one of the highest boosts in all of the EU for the High tech manufacturing sector. Denmark also offsets their deficits by bigger contributions especially in the Middle-Low tech, while also clearly outpacing Finland both in agriculture and every single subset of the manufacturing industry in real value added. The aforementioned predictions by Grubler et al., (2019) are however, somewhat contradicted by Felbermayr et al., (2019). In their own general equilibrium study utilizing the EU-South Korea FTA as a base for their analysis, they forecast that inside the EU, out of all of the industries it is exactly the agriculture industry that gains the biggest real value-added benefit of the Economic Partnership Agreement. Grubler et al., (2019) and Felbermayr et al., (2019), however, agree that for the manufacturing industry it is Japan and not the EU who reaps the big benefits, while the latter also predicts great service industry benefits for Japan.

It is, however, crucial to note and consider, that both Grubler et al., (2019) and Felbermayr et al., (2019) use only a tariff barrier and non-tariff barrier categorization as a framework for their quantitative analysis. Unfortunately, undermining and clashing with some of the potential benefits the EU-Japan Economic Partnership Agreement might provide, is the reality around Finnish FTA utilization. According to some academics, Finland and its companies are relatively bad at taking advantage of and utilizing free trade agreements compared to other EU nations (Hakkala, Kaitila, Kuusi, Lehmus and Wang, 2019). Though there are some notable exceptions to this in specific industries, which in Finland's case are the forest industry, machine and equipment manufacturing as well as the trade of services.

However, on a general trade level, the FTAs concluded during Finland's time in the EU have had zero economic impact on Finland's services and goods total exports, but instead, all growth has come from general globalization and increased trade flow in the world (Hakkala et al., 2019).

*“It's clear as day that we don't have a trading partner with zero unused potential. Trade can always be increased more.” –*

Interviewee D

Somewhat surprisingly, with similar analysis Hakkala et al., (2019) continue on to forecast the EU-Japan EPA as causing a 0,34% increase in Finland's exports. The same as Germany and markedly over the EU average of 0,20% and Sweden with 0,21%, a rather strong contradiction to Grubler et al., (2019). Unlike them, however, this research is of a qualitative nature and attempts to take context and the cultural barriers into account as much as possible as well, hence the institutional barrier and cultural barrier categorization. Despite the not so overtly positive predictions above, Interviewee C has a glimmer of hope due to the fact that the EU is now focusing their attention on the implementation and after-ratification phase of the EU-Japan EPA, instead of just the negotiations. Interviewee B is hopeful, continuing with this increased focus hopefully leading to Finland utilizing and reaping benefits, if not fully then at least partially, from all of the FTAs they are a part of.

*“[The EU-Japan Economic Partnership Agreement] is being looked at with a very big magnifying glass – Interviewee C*

One of the reasons that might explain Finland's lack of free trade agreement utilization is Finland's geographical and geopolitical situation. Located in the EU but having Russia as a neighbor, this had made Finnish companies very adept at working in difficult markets even without the presence of any FTAs (Interviewee C). Being in close contact with Russia by being their neighbor and having conducted extensive trade with them has according to Interviewee C been a blessing in disguise. There have been a lot of sanctions and stipulations that Finnish companies have had to work with and around, providing valuable experience and an opportunity to get used to difficult markets.

*“The starting point is that [Finnish] companies know how to operate in different cultures, and Japan is a different culture”*

– Interviewee C

## Geographical Indications in the EPA

As a part of the EU-Japan Economic Partnership Agreement, a major win for the EU was getting the inclusion of all 210 product categories of Geographical Indications (GI) to be protected under the EPA, with also an option of possibly adding more Geographical Indications to the list later on down the line.

*“A geographical indication (GI) is a distinctive sign used to identify a product whose quality, reputation or other characteristic is linked to its geographical origin.”* – EU-Japan Centre for Industrial Cooperation (2019)

GIs are in place in order to protect European products and manufacturers from any kind of misuse and provides them an extra level of added value as well. The protection bans copycats from falsely imitating and marketing products with an established image, brand and history behind them, like for example Prosciutto di Parma from Italy. The EU-Japan EPA will be providing protection to products both under the Protected Designation of Origin (PDO) as well as the Protected Geographical Indication (PGI) schemes, but as the EPA does not make a distinguishment between the two, we will not be going more in-depth into them and they will be treated just as one Geographical Indication (GI) entity in this thesis as well.

Having a GI in place for a product can prove to be a key advantage for product differentiation and distinguishment when entering a new market, especially after tariff reductions possibly leading towards a flood of similar substitutes flowing to the marketplace. In a research paper conducted by the European Commission (2021b), it was found that products that have a protected status as GI, have an average sales value two times that of similar substitutes in the same marketplace.

*“[On the topic of entering new markets] Cheese is not unique to either Sweden or Finland. You have cheese from Greece, you have cheese from Turkey, you have cheese from Great Britain, you have cheese from France, you have cheese from Italy. Almost every country from Europe says they have their own special type of cheese, the same goes for alcohol.”* – Interviewee A

*“We have [Brand Name] and a few other famous brands and you can get a few other brands cider in Japan that are [Nationality], but it’s difficult to say because we don’t really have anything like champagne and our famous brands, I don’t think it’s enough in order to leverage.” – Interviewee A*

In the above two quotes, Interviewee A describes the troubles Finland and many other European countries will be facing when trying to export generic everyday products to Japan with the assistance of the new EU-Japan Economic Partnership Agreement. A very fitting case, considering the dairy industry in Finland. Although the above examples refer to cheese and alcohol, the illustration holds water (or vodka, hah) in other industry areas as well. They go on to further illustrate the difficulties a free trade agreement that connects one country with a block of nations can cause for companies trying to take their products abroad.

*“We have a lot of agriculture products in Europe, and we have a lot of countries so we have a lot of distinguished differentiated foods like beverages that we can export. The problem and the strengths is that we are many and we have many products, [resulting in a situation where] we have to compete with each other. It’s not just like between France and Japan, where you’d have a lot of cheese and wine, from like maybe 20 different companies to compete with, but now you have the rest of Europe, say like 2000 companies. So that’s going to create a problem unless you have a strategy to promote.” – Interviewee A*

From Finland’s perspective as well, though there would be many delicious products to export to Japan, differentiation over more established brand names and countries in key agriculture product lines will be a challenge.



Table 6  
Finland's registered GIs as of 9.4.2021

Original Name	English Translation	Product Category Class	Registration Date
Aito Saunapalvikinkku	Genuine Smoke Sauna-cured Ham	1.2 Meat Products	25.1.2021
Puruveden Muikku	Vendace from Lake Puruvesi	1.7 Fresh Fish	6.12.2013
Kitkan Viisas	Vendace from Lake Kitka	1.7 Fresh Fish	15.3.2013
Lapin Poron Kylmäsavuliha	Cold-smoked Reindeer Meat from Lapland	1.2 Meat Products	29.4.2011
Lapin Poron Kuivaliha	Dried Reindeer Meat from Lapland	1.2 Meat Products	29.10.2010
Lapin Poron Liha	Reindeer Meat from Lapland	1.1 Fresh Meat	6.5.2009
Kainuun Rönttönen	Kainuu Potato Pie	2.3 Bread, Pastry	12.11.2008
Lapin Puikula	Potato from Lapland	1.6 Fruit, Vegetable	24.1.1997
Suomalainen Marjalikööri	Finnish Berry Liqueur	32 Liqueur	29.8.1994
Suomalainen Hedelmälikööri	Finnish Fruit Liqueur	32 Liqueur	29.8.1994
Suomalainen Vodka	Vodka of Finland	15 Vodka	29.8.1994

Sources: Aitojamakuja, 2020; Finnish Food Authority, 2020; European Commission, 2021.

The above table has all of Finland's Geographical Indications listed that are covered under the EU-Japan Economic Partnership Agreement and unfortunately, it does not provide much of an advantage to Finnish companies when entering new markets, especially Japan. Out of the 11 listed GIs, one could say that only Aito saunapalvikinkku and the three different alcoholic beverages are in moderate to frequent daily consumption even among Finnish residents, let alone abroad in foreign markets. The rest could be considered as delicacies or products worthwhile for either a special occasion or as a gift or souvenir from a trip to one of the regions involved. Though Japan is an extremely heavy-drinking nation with a love for beer and plenty of other beverages, vodka on the other hand is not by any means a popular spirit in Japan. It is generally looked upon as not tasty and mostly only makes appearances as a base alcohol for some cocktails and the rare shot at nightlife establishments, with very rare individuals purchasing it for personal use from liqueur stores or supermarkets. Despite the heavy drinking and very large alcohol industry in the

country, the consumer tastes and liquor market is exceptionally domestically dominated with less than 5% of the whole market constituting from imported alcohol (Mazur, 2016).

Therefore, the impact of Finnish Geographical Indications will make with the EU-Japan EPA can be estimated to be very small to minuscule, while on the other hand, many other countries have greatly taken advantage of their right to Geographical Indications with the EU. Even to a degree that many, if not most people, are aware of some of the most famous ones and that their name usage is protected and limited, without even knowing about the Geographical Indication concept in the first place.

*Table 7*  
*A list of famous and well known Global Indications*

<b>Original Name</b>	<b>English Translation</b>	<b>Product Category Class</b>	<b>Country of Origin</b>
Champagne	Champagne	Wine	France
Parmigiano Reggiano	Parmesan Cheese	1.3 Cheeses	Italy
Uisce Beatha Eireannach	Irish Whisky	2 Whisky	Ireland
Scotch Whisky	Scotch Whisky	2 Whisky	United Kingdom
Φέτα	Feta Cheese	1.3 Cheeses	Greece
Prosciutto di Parma	Prosciutto Ham	1.2 Meat Products	Italy
Tequila	Tequila	47 Other Spirit Drinks	Mexico
Basmati	Basmati Rice	1.6 Fruit, Vegetable	India

*Source: Aitojamakuja, 2020; European Commission, 2020; European Commission, 2021a.*

The above list, consisting of some of the most well-known Geographical Indications gives a picture of how much the designation can be worth in a best-case scenario. In fact, according to the European Commission (2021b), the sales value of all GIs inside the European food and drink sector was calculated at being 74.8 billion euros worth and continuously growing as well. The above list is just an example of famous GIs, but even so, all of the names are household names and terms recognized all over the world while Finland has unfortunately been very unable to capitalize on any of the 11 GIs protected under the new EU-Japan Economic Partnership Agreement to make economic gains with their usage. Considering that an estimated 20% of the total value comes from exports

outside of the European Union economic zone, GI utilization as a part of free trade agreements can largely be seen as an opportunity that has not taken hold in Finland as of yet.

Additionally, over half of the value of the Geographical Indications are being provided by wines, which Finland does not have a hand in (European Commission, 2021b). Continuing in the alcohol perspective, while Vodka is not an appealing liquor for the Japanese market, spirits, in general, do provide roughly 13% of the sales value of GIs, meaning Vodka of Finland could have potential in other markets. As far as agriculture products and Aito Saunapalvikinkku go, they represent slightly over one-third of the total sales value and therefore the biggest opportunity for Finland to utilize their GIs.

For Finland though, a sense of solace can be found in the fact that none of the neighboring Nordic or Baltic Countries have been able to utilize their GI sales values to more than 400 million euros, while on the other hand France and Italy both topped 10 billion euros worth of sales value, showcasing the lopsidedness of the current GIs in value (European Commission, 2021b).

### **A look from the Japanese perspective**

Taking cultural barriers and the needs of the Japanese market into consideration, it might also be useful to change perspectives away from the agriculture and textile industries to solving current problems in the Japanese market. As Japan is also going through a demographical change and is experiencing pains with an aging population like most Nordic countries as well, this might provide more opportunities for Nordic and especially Finnish companies to stake their claim in the market during a time of change. Though Japan is known for having a very large pharma industry, Finland on the other hand is on the cutting edge in innovation and digital solutions. Therefore, telemedicine-related new technologies especially related to the current aging problem could definitely prove to be a lucrative road for Finnish companies. Especially in the telemedicine and health technology sector, there were numerous crucial NTB's to address and a big amount of those barriers and obstacles were either worked on or totally removed as a result, which was crucial for Finland (Interviewee C). This was also resonated by Interviewee A and Interviewee D, with Interviewee A further stating that though the EU-Japan EPA is particularly top-heavy with agriculture-related topics from a European perspective, it is incredibly important to look at

other, even very small local industries, that could work as complementors to some of the big industries in Japan like automotive, steel, pharmaceuticals and so forth.

With the newly elected Prime Minister Suga at the end of 2020, Japan is also looking at taking new steps on the road of digitalization, overhauling its IT strategy, and getting rid of unnecessary red tape, bureaucracy, and paper-based transactions/interactions. As an example, Finnish people have for the longest time been able to update their addresses both to the Population Data Services Agency and the Postal Service through the internet in just a couple of minutes. A relatively routine process, that still in Japan is conducted manually by first going to your old residences city hall to hand in a “moving out notice” and receive a certificate confirming it, before then heading to your new address city hall to register a “moving in notice” with your previous certificate. A process that usually takes multiple hours in the middle of a weekday due to the opening hours of city halls accompanied by long waiting lines and is additionally often spread over two days in total. The previous type of public sector IT systems and practices are still very outdated from a Finnish perspective, and with the public procurement opportunities now open to Finnish companies, opportunities for Finnish know-how could become abundant. Interviewee C, however, claimed that Finnish companies partake in public procurement at a very low rate in their home country, but even less abroad, even as close as in Sweden. Therefore, while public procurement openness has a vast amount of potential, due to the low utilization and participation of Finnish corporations, expectations should be tempered down. The trend, however, is not limited to just Finland but can be seen as a general tendency of public procurement mostly only concerning domestic corporations. In the times since the EU-South Korea free trade agreement came into force in 2011 with public procurement inclusions, only a single South Korean company has won and executed a project in Finland (Hakkala et al., 2019). Therefore, though the needs of Japan and the know-how of Finland’s IT systems and cooperation with the public sector might on paper look like an excellent match, the probability of public procurement providing a large opportunity for Finnish companies is rather small.

On a more positive note, most of the Interviewees stated that the Nordic countries have an extremely good country image inside of Japan and this can create a moderate amount of success in and of itself. The above statement from the Interviewees also matches my own experience with working in Japan in conduct with both Foreign and Japanese companies. It is not per se that Finland's individual country image and brand is of utmost strength, but

that it very easily gets lumped together with its neighbors in a general “Nordic Countries” set, which boasts an incredibly strong and positive image in Japan. Through the experiences I have had, there’s a strong belief that just like the Interviewees stated, a positive image can create success and a great springboard for Nordic companies in Japan even though the product or service would not be the best in the market. Interviewee A, however, states that the initial interest and curiosity of the Nordics is eventually going to fade away after a while, like the shine of a new pair of shoes. Therefore it is my belief that during a market entry to Japan, it is of crucial importance in that shining time to build a strong and trustworthy base and presence for a long-term relationship as possible.

### **A look to the future**

As discussed throughout this thesis, Free Trade Agreements are very long-lasting contracts and their impacts are very hard to forecast into the future or even see after a few years, especially as there are transition times in play as well. Interviewee E also believes that there are often very unrealistic expectations in play when a new free trade agreement is announced and comes into force.

*“There’s talk like it’s a life and death situation, with everything completely changing. When in fact free trade agreements can be rather large with a wide range of topics and very differing perspectives. The contracts aren’t very deep, so when talking about expectations, with them being superficial they don’t change that much. Then you won’t be able to greatly dismantle barriers or elevate the economy, these things go hand-in-hand.”*

– Interviewee E

*“If you want a very in-depth and detailed FTA then the benefits are bigger [also lower success probability and longer process], and if you want a surface-level one then the benefits are smaller and FTAs easily end up like that [on the smaller side].” – Interviewee E*

The EU-Japan Economic Partnership Agreement could be considered to be one of the most in-depth and deeply penetrating FTAs that the EU has in force, but in the larger context of national economies is still rather superficial and thus restraining expectations could be the right way to approach the EPA both from a global and Finnish perspective.

*“Of course this [the EPA] is a positive thing for trade and some kind of economic growth [for Finland] can surely be seen, most likely nothing significant though but it will have a positive plus sign before the number” – Interviewee E*

*“I would be careful about making any preconceived notions or speculations at this point [Regarding the effectiveness of the EU-Japan EPA] ... we need a little bit more time.” – Interviewee D*

*“... [On the current worth of free trade agreements to Finland] I wouldn't start making a conclusion. These things need to be looked at in context, and in the long term, I believe that their significance will rise. You need to look at them like an investment to the future, and in let's say 20 years time, their value could be monumental.” – Interviewee D*

Just like the above quotes state as well, it is still very early to look at what kind of an impact the EU-Japan EPA has had if any, and predictions based on very short-term or immediate results might be ill-advised. According to Interviewee C, in the past 10 years or so, a large number of significant free trade agreements have come into force from the Finnish perspective. The most notable ones of these would be Canada, South Korea and now Japan. Interviewee C, Interviewee D and Interviewee E believe that the economic worth is there, but it will take a little bit more time to see the value and worth that they are providing to the national economies even in the cases of the EU-South Korea FTA and EU-Canada FTA, let alone the one completed only a couple of years ago with Japan. Nevertheless, through 5 expert interviews and other data gathered through primary and secondary sources, I have tried to gather insights into what kind of things might happen due to the EPA in the medium- to long-term future:

Approximately 2 years from the ratification of the EPA, in the year 2021, the first set of concrete commercial partnerships and joint ventures, which were motivated by the EPA but started their initial process *after* the ratification of the EPA, will have been concluded. After this period of time, the consumers in Japan should also start slowly seeing a larger increase of European products, especially in the agriculture sector, compared to times pre-2019. According to Interviewee D, this short-term time period is also used as a marketing

tool to attract more companies into the market. However, again, it will take time for those newly attracted companies to get into the market and leave their mark.

About 5 years past the ratification of the EPA, with the words of Interviewee A, “*we can see which the new ‘Salmon’ is*”. This is to state that there should have passed enough time for some few European or Japanese products to create a mark and become close to a staple in their relative host market. We will be able to see which products have been able to position themselves well and might start to see the initial significant effects of the FTA on both the Japanese and the European societies, whether they are for example through an increased Japanese automotive presence in Finland or the increase of dairy products in the dietary habits of Japanese residents. “*Or whether there even are any effects to be had*” – Interviewee D.

Then, closer to the 10-year mark past the ratification of the EPA, we’ve reached a point of fortification for both European companies and products in Japan, a sense of “they’ve succeeded in Japan”. According to Interviewee A, this would also be about the period when a “second wave” of supplemental products from Europe could be making their way through the Japanese society and gave the cheese grater as an example. A fairly ordinary tool, present in most households in the Nordic countries, but a very rare tool in Japan. Gravity model research conducted by Hakkala et al., (2019) somewhat contradicts my personal views, however, as Hakkala et al., (2019) state that in the EU’s previous FTA cases, the most visible economic impacts on exports for Finland have been either immediate or on a 5-year lag. I, however, believe that in the EU-Japan EPA case the most visible economic impacts will be occurring with a 5-year lag and slightly more notably with a 10-year lag. The agreements’ heavy emphasis on the automotive industry from Japan’s side and the agriculture industry from the EU’s side contribute to this, in addition to the very long transition times in several industries as well as the remaining high cultural barriers.

On the other hand, it will be much harder, if not nearly impossible, to forecast how the growth or changes in not product offerings, but service offerings will evolve. According to Interviewee D, this has mostly to do with the structure of world trade and how it is easy to pick out statistics for item trade with precision in anything from volume and value to weight for example, as these are all registered in different governmental databases during exporting and importing of said products. However, according to them, it is much harder to

evaluate the size and traffic of service offerings and Hakkala et al., (2019) agree with the statement, further continuing that estimations regarding service trade are not as precise as they would be for the trade of goods as it is hard to find reliable information and statistics on the flow of services between countries. As services already account for approximately a third of Finland's trade, forecasts might give a twisted image of the whole impact the EU-Japan Economic Partnership Agreement, or other FTA's for that matter, might have. This is further compounded by Finland receiving the most gains from the service industry, compared to other sectors, when looking at FTA benefits for the country (Hakkala et al., 2019). Interviewee C also recalled that Finland is actually exporting more services than products into South Korea currently, however, the EU-South Korea FTA has had a negligent impact on exports from Finland increasing, while service imports from South Korea on the other hand have increased considerably (Hakkala et al., 2019). Therefore, if the EU-Japan EPA is to follow the path and mimic the outcomes of the EU-South Korea FTA like discussed in Chapter 5.3, this further showcases how unpredictable and unforecastable the mid-to long-term future for the EPA might look like. Despite all of the worrying indications regarding the EU-Japan EPA utilization and uncertainty of the benefits for Finland, Interviewees C and D condensed the final thoughts of all of the interviewees as well as mine by stating that "[Taking into consideration the whole big picture] *We think that the agreement is good*" – Interviewee C.

*"It's a very big thing that this agreement was accomplished. It's a big positive in the middle of a lot of negatives, with all the other things in trade policy going wrong [Referring to Brexit, Trump's policies, protectionism etc]. There's a big symbolical meaning that this agreement was able to be concluded."* – Interviewee D

*"There's so many convoluted and complex interests and parties involved, that these things don't move forward with just bureaucracy only."* – Interviewee D

All interviewees also agree that there will most likely be very unforeseen consequences or trends in the long-term that could very well have had their birth due to the EPA, but that very few academics or business professionals were able to predict or see beforehand. As an overarching hope and wish for a result though, a majority of the Interviewees mentioned and hope that the successful establishment and implementation of the EU-Japan Economic



Partnership Agreement sends a signal to the rest of the world that global trade is still alive and well, and that increased protectionism should not be the way to go forward with. Interviewee B also hopes and believes that the EPA types of free trade agreements could work as a springboard or stepping stone to a more broad and inclusive multinational FTA negotiation at some point down the line.

“[The EU-Japan Economic Partnership Agreement] *has a significance that goes past just national company interests.*” –

Interviewee D

## 7. Conclusion

Based on the primary data gathered through interviews and my own experiences, as well as secondary literature research conducted, it can be concluded that the EU-Japan Economic Partnership Agreement is not likely to have considerable impacts either on Finnish companies or European trade and exports. In general, experts believe that due to the free trade agreement, there will be an overall positive influence, but the size of which will be negligent on a general level, while some individual sectors might receive larger boosts and growth.

Institutional market entry barriers were dismantled efficiently especially in the areas of tariffs, quotas as well as international standards. However, the emergence of Rules of Origin outweighs and surpasses the impact other institutional market entry barrier dismantlings have been able to achieve, especially for SMEs who might lose ground on the markets to larger corporations with the resources to tackle the bureaucracy of ROOs when entering Japan.

Cultural market entry barriers remain intact as expected and no industry with the sole exception of the automotive industry can avoid clashing with them and causing obstacles to a successful market entry operation. According to interviewee testimonies and my own experience, cultural barriers in many cases cause more headaches for corporations than institutional barriers do. Recruiting knowledgeable specialists fluent in Japanese is seen as one of the best ways to overcome cultural barriers. Recruiting these specialists, however, is often seen as one of the hardest cultural barriers to overcome, resulting in a Catch 22 situation for many companies. Partly due to this, American corporations are described brute-forcing themselves into the market more often and trying to ignore cultural barriers,

while Nordic companies on the other hand try to find a mutually satisfactory solution. This solution is often found through the use of joint ventures as a market entry strategy and the aforementioned strategy could see its use grow even further in the future with institutional barriers declining while cultural barriers stay the same. The existence of ROOs can also discourage corporations from exporting especially if they are not able to utilize scale economies.

This thesis also identified that there is a lack of knowledge regarding FTAs among companies able to and interested in internationalization, as well as it being an exceptionally hard task to disseminate crucial information regarding the FTA in an efficient manner. FTA utilization was also seen as being very low especially in Finland but also throughout Europe, especially among SMEs. These factors all consequently result in the EPA going through a very slow build-up and results for the EU-Japan EPA can most likely not be seen until earliest, 5 years after the FTA came into force, therefore in the year 2024. At this point, enough time should have surpassed to ascertain trends in various industries and start seeing the impacts of the EPA. Although the impacts of the EU-Japan EPA can not be seen for a while economically speaking, the FTA was a significant success as a beacon of hope for free trade across the world when protectionism and trade wars were grabbing headline after headline.

### 7.1. Limitations

The limitations to the study consist of a multitude of factors, some of which intertwine with each other. Firstly, with the Covid-19 pandemic and the following economic downturn starting less than a year after the implementation of the EU-Japan Economic Partnership Agreement, it is practically impossible to compare quantitative data between sectors before and after the EPA and try to isolate only the effects of the EPA. Therefore, quantitative analysis, trade balance and trade sector analysis and results have been excluded from the research as I would not have had a way to account for the unusual pandemic downturn in any way. Also, due to the prolonging pandemic situation, closed borders in Japan and relatively slow vaccine rollout, the market entry operations of European companies are most likely going to be subjected to extended delays even past the year 2021.

Secondly, due to the covid-19 pandemic, many market entry operations by European companies to Japan were completely frozen or canceled. Therefore, primary data gathering

from other parties than FTA and market entry specialists, to who I had a pre-existing network link to, became considerably more difficult.

Thirdly, I have a very international background and believe strongly in culture having an exceptionally strong influence on how business is conducted. The research thus does include mentions and portions based on my own experience living, studying and working in Japan for an extended period of time. These personal anecdotes are meant to support the points of other interviewees and data found through either primary or secondary research. My comments also work as a catalyst for discussion and a way of building context and understanding around cultural concepts which might be foreign coming from a western or Finnish perspective. With that being said, I acknowledge that there may be an undertext of cultural market entry barrier bias in the thesis, due to my own subjectivity, past studies and lived experience in Japan.

## 7.2. Further research

Future research into FTAs and their impacts on market entry barriers should take a deep look at digital trade and services more than what was able to be done in this thesis. Digital protectionism has been slowly building up in the past decade with the rise of the internet and its harmful effects might rise even more in the current digital economy phase we are in (Mishra, 2016; Panchenko, Reznikova and Bulatova, 2020; Interviewee E). As a form of protectionism, digital protectionism is also believed to have a somewhat different nature compared to other forms of protectionism and barriers as it is intangible, easily tradeable and in some cases is intertwined and inseparable to the public citizens of a country (Aaronson, 2019). Personally, I disagree with these factors, by nature, making digital protectionism a new type of protectionism, as cultural barriers are also a highly intangible matter that cannot be separated from the public, even if culture per se isn't tradeable. Nevertheless, digital protectionism could be construed as being the newest variant of protectionism and therefore there is no widely accepted definition for the term, but individual digital barriers can be constituted from an unexhaustive list of censorship, data localization, filtering, blocking and internet traffic redirecting (Aaronson, 2019). The topic can also be rather complex just like with other forms of barriers, as various countries conduct digital protectionism for vastly different reasons, ranging from advocating for their own industries to concerns with national security or privacy-related matters (Mishra, 2016). It is also a belief that current country comparative advantages are realized in the

ICT industry, and therefore both economical and political interest-oriented barriers are being established at a rapid pace (Panchenko et al., 2020). Furthermore, there is a worry that instituting international norms to both prevent the establishment of protectionist barriers, and to later dismantle them, is harder than with the trade of goods (Aaronson, 2019).

Rules of Origin should also be researched to find out the extent of their negative impact on the utilization of FTAs and their eventual lack of materialization of benefits. Based on this thesis, it seems like ROO's single-handedly cause a considerable amount of companies to not utilize FTAs and also result in lopsided benefits to larger corporations.

Cultural barriers also receive too little research attention compared to how large of an impact culture has on business operations especially in East Asian nations. Research should also be conducted on comparing the harmful effects of institutional barriers and cultural barriers to each other, as some of the interviewees and I incline to believe those cultural barriers are the cause of a lot more disputes and failed market entries than institutional barriers are.

Communication regarding upcoming FTAs and those already in force is a major problem for the European Union, and therefore before the next big FTA is concluded, research should be conducted on how to disseminate relevant information regarding the FTA to corporations and especially SMEs. The utilization of FTAs has been a continuous problem for the EU, and therefore this future research should be of utmost importance.

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